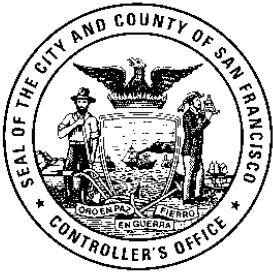
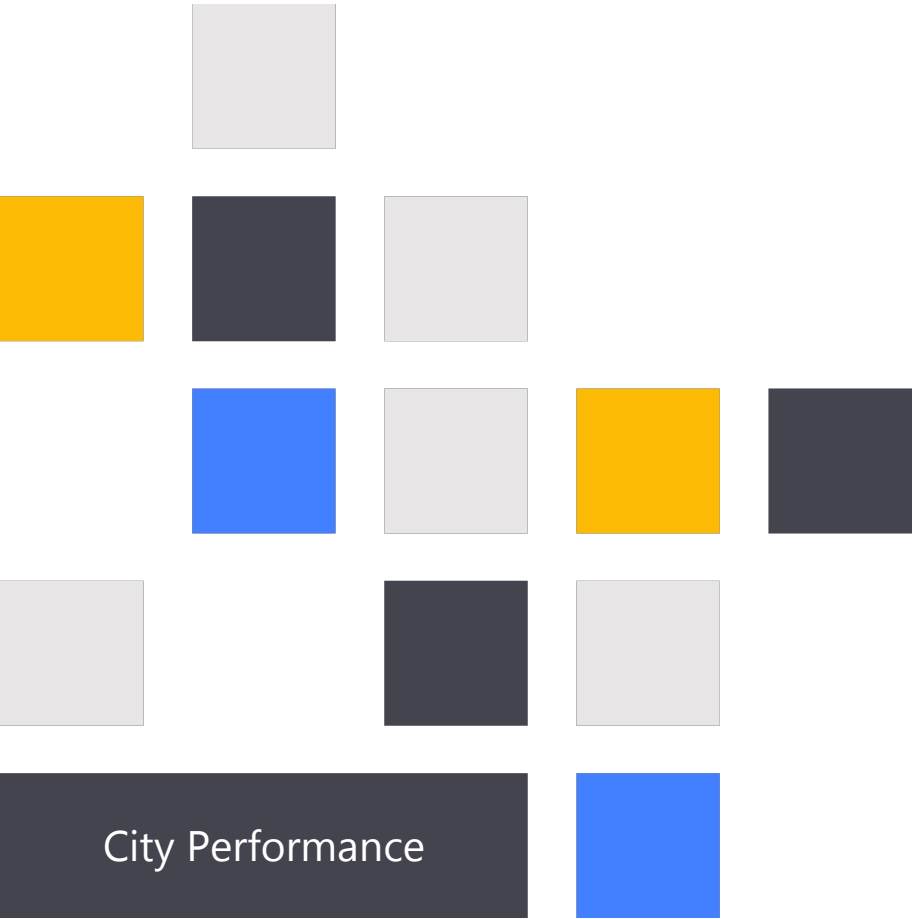


# Cannabis in San Francisco

A Review Following Adult-Use Legalization



**December 5, 2019**

City & County Of San Francisco  
Office of the Controller  
City Performance

## About City Performance

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the San Francisco City Charter that was approved by voters in November 2003. Within CSA, City Performance ensures the City's financial integrity and promotes efficient, effective, and accountable government.

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# Executive Summary

In 2016, California voters passed Proposition 64, allowing for the production and sale of adult-use cannabis; in San Francisco, 74% of voters approved this measure. In late 2017, the San Francisco Board of Supervisors passed ordinances governing the legal cannabis industry in San Francisco and establishing an Equity Program for cannabis businesses. The Board also instructed the Controller's Office to "track the number of permits awarded" and issue "a report that makes recommendations as to whether the issuance of Cannabis Business Permits should be subject to any numerical, geographical, or other limits."<sup>1</sup> In response to this legislative directive, this report: 1) identifies the number and type of cannabis businesses currently permitted and applications for cannabis business permits currently in queue; and 2) analyzes key indicators within the topic areas of **Regulation, Equity, Economy, Public Safety and Public Health** to recommend whether there should be any limits on cannabis permits. In consultation with the City Administrator's Office, the Controller's Office will provide a brief update in Fiscal Year 2020-21 to these findings and recommendations.

Below is a summary of key findings and recommendations by topic area.

## Regulation

During the first year of legalization, the Office of Cannabis has undertaken: regulating the existing and previously unregulated cannabis industry, implementing the Equity Program, and developing a new cannabis business permit application system and associated multi-departmental approval process. This complex permitting process, combined with a lack of staff resources, has led to a significant permit queue.

The following table shows the number of active cannabis business permits by activity type in San Francisco and the number of cannabis business permit applications in queue with the Office of Cannabis.<sup>2</sup>

Business Activity	Currently Permitted	Equity Permit Applications in Queue
Storefront Retail	37	133
Delivery-only Retail	41	46
Cultivation	45	17
Manufacturing	42	31
Distribution	46	50
Testing Laboratory	1	0
<b>Total</b>	<b>212</b>	<b>277</b>

- There are 212 cannabis businesses authorized to operate, but the actual number currently operating is likely closer to 118. There are 37 authorized cannabis retail storefront operators, all of which were medical dispensaries or were in the process to become medical dispensaries before adult-use legalization. The Office of Cannabis has issued temporary permits to business activities other than storefront retail, which include delivery-only retailers and supply-chain business activities.
- There are 277 Equity Program permit applications, which are the only application type currently eligible for processing by the Office of Cannabis. No equity applications have been granted a permanent permit yet.
- There is such a high number of storefront retail applications (133) that this activity may not be viable for many of these equity applicants, who may be expending resources to reach a market that may already be saturated. (Page 24)

<sup>1</sup> San Francisco Ordinance 230-17, §1613

<sup>2</sup> As of August 15, 2019. At the time of publication of this report, there were 39 permitted storefront retail businesses.

**Recommendation:** The Board of Supervisors and Mayor should consider a moratorium on new storefront retail applications. In addition, they should consider methods of reducing the number of current storefront retail applications in queue, such as offering incentives to change pending storefront retail applications to other business activities.

- The average equity applicant currently in queue can likely expect to wait 18-24 months before being permitted due to the intensive process of a multi-departmental application review and the current backlog of applications. (Page 30)

**Recommendation:** The Board of Supervisors, Mayor, and departments should consider creating a priority permitting lane or expedited processing for equity applicants in departments other than the Office of Cannabis, including but not limited to: Planning, Police, and Building Inspection.

## Equity

- Equity Program applicants—who were specifically chosen because of their existing disadvantage—face a lengthy permitting timeline during which they may be expending resources. These individuals may be further disadvantaged by the city’s inability to provide timely permit processing. (Page 42)
- To cover costs while waiting for application approval, many equity applicants are incurring debt and/or selling ownership shares in their business to investors who can provide capital (Page 42). This is currently the primary mechanism by which large investors/companies are entering the cannabis market. (Page 42)
- Equity applicants who do not receive external financial backing are the least likely to be able to float their business location costs through the lengthy application process. Applicants that have financial backing from investors or other cannabis companies will be more likely to survive to market. (Page 42)
- Limits to cannabis business permits based on numeric caps or geography would disproportionately impact equity applicants in queue who have already expended resources while waiting for their permit.

**Recommendation:** No numeric or geographic limits to existing or in-process cannabis business permits are recommended at this time; however, any potential future limits should apply to new applicants rather than to the existing applicant pipeline.

**Recommendation:** The Board of Supervisors, Mayor, and City Attorney’s Office should consider utilizing the Community Reinvestment Fund to provide technical and capital assistance to equity applicants, including no-interest loan funding, grants, and/or banking options.

## Economy

- San Francisco cannabis taxable sales decreased from \$61 million in Q2 2018 to \$51 million in Q1 2019, a reduction of 16% in nine months. (Page 56)
- In 2015, the average cannabis retail operator had sales of \$6.3 million, but by 2018, given the 44 new retail operators in the market, those sales decreased by 45% to an average of \$3.4 million (Page 57). Assuming consistent demand to 2018, the average annual revenue will decrease notably as new equity cannabis retailers become permitted. (Page 57)

**Recommendation:** The existing legal cannabis market will become increasingly competitive with the entry of equity applicants. The illicit cannabis market, by some estimates, is much larger than the legal market. The Board of Supervisors, Mayor, and departments should adopt strategies and investments, where required, to halt the illicit cannabis market.

## Public Safety

- In 2018, cannabis-related crimes accounted for only one-tenth of one percent of all crimes in San Francisco. Since 2013, cannabis-related crimes have decreased by 78%, down to only 186 incidents in 2018. (Page 64)

- In 2018, cannabis business locations saw a 6% decrease in violent crime compared to a less than 1% increase citywide. (Page 71) In 2018, cannabis business locations saw a 1% decrease in property crime compared to a 9% increase citywide. (Page 72)

**Recommendation:** Based on the decreasing amount of property and violent crime around legal cannabis locations in 2018, the Controller's Office does not recommend any limits to the number of cannabis operator permits to address public safety concerns at this time.

## Public Health

- Locally, use of cannabis among high school students has decreased along with national trends since the 1990s. Notably, San Francisco use rates are lower than national averages. (Page 79)
- ZSFG admissions that indicate cannabis as a diagnosis slightly increased following legalization, but are relatively rare compared to overall admissions, making up less than one-third of one percent. (Page 83)
- It is difficult to separate trends related to increasing cannabis use from the impact of increased comfortability discussing and recognizing cannabis use, leading to increased reporting. (Page 82)

**Recommendation:** Cannabis-related health indicators are mixed. It is too early to determine any recommendations regarding legalization and its public health impacts at this time.

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# 1. Background and Methodology

In 2016, California voters passed Proposition 64, allowing for the production and sale of adult-use cannabis;<sup>3</sup> in San Francisco, 74% of voters approved this measure. In late 2017, the San Francisco Board of Supervisors passed ordinances that govern how existing cannabis businesses (formerly the medical cannabis industry) can transition to the adult-use market and how new entrants can establish cannabis businesses in San Francisco.

The ordinances established an Equity Program, which attempts to prioritize “communities that have been historically and disproportionately affected by federal drug enforcement policies” to receive permits before general applicants. Additionally, the regulatory framework intends to reduce the illicit market, minimize social harm, protect and promote the health of San Franciscans, limit youth access and exposure, and create jobs and tax revenue for the city.<sup>4</sup>

The legislation instructs the Controller’s Office to “track the number of permits awarded” and issue “a report that makes recommendations as to whether the issuance of Cannabis Business Permits should be subject to any numerical, geographical, or other limits.”<sup>5</sup> This report 1) details the number and types of cannabis businesses currently permitted in San Francisco; and 2) analyzes key indicators within the following five topic areas to recommend whether there should be any limits on cannabis permits at this time. Each chapter concludes with a summary table of key findings and recommendations (see Appendix A for a complete list of recommendations across chapters).

- **Regulation:** tracks the number of cannabis permits by activity type and location. It analyzes how San Francisco’s cannabis permitting framework has functioned and describes the impact of the permitting framework on equity applicants and other priority applicant groups.
- **Equity:** evaluates the impact of the Equity Program thus far, given the regulatory intent of the program.
- **Economy:** reviews key economic indicators and trends of the cannabis industry, such as retail sales, pricing, and job growth.
- **Public Safety:** analyzes recent trends in cannabis-related crimes in San Francisco, the prevalence of crime within 600 feet of known legal cannabis businesses, and the number of cannabis-related DUI arrests and SF 311 complaints since adult-use legalization.
- **Public Health:** analyzes recent trends in cannabis youth use, hospital admissions with cannabis-related diagnoses, and substance use treatment admissions with cannabis-related diagnoses.

The Controller’s Office methodology for this analysis included 1) interviews with subject matter experts and industry participants; 2) data analysis; 3) comparative review of other jurisdictions with legal adult-use cannabis; and 4) a literature review. For a detailed list of meetings and interviews, please see Appendix B, Controller’s Office Meetings and Interviews. For further details regarding the data sources and analysis of cannabis crime and arrests, please see Appendix G, SFPD Data Analysis Methodology.

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<sup>3</sup> In some states, the term “recreational” is used instead of “adult-use”, and “marijuana” used instead of “cannabis”. In this report, “adult-use cannabis” is used to mirror state and local terminology.

<sup>4</sup> San Francisco Ordinance 230-17, §1600

<sup>5</sup> San Francisco Ordinance 230-17, §1613

## 2. Regulation

This chapter presents an overview of the cannabis industry in California and San Francisco and analyzes how San Francisco's cannabis permitting framework has functioned as it has developed. San Francisco's adult-use legalization ordinance prioritizes equity program participants and other priority groups to receive permits before general applicants. This chapter describes the impact of the permitting framework on equity applicants and other priority applicant groups and particularly, the difficulty they are experiencing with a lengthy and complex regulatory framework. Finally, this chapter presents recommendations on how to improve their experience.

### STATE OF ADULT-USE CANNABIS IN CALIFORNIA

Since the legalization of adult-use cannabis in California, the state's legal market quickly grew to the largest legal market in the world. In California in 2018, it is estimated that legal sales of cannabis totaled approximately \$2.5 billion. A recent report estimates that the **2019 totals may reach \$3.1 billion, a one-year increase in sales of approximately 23%.**<sup>6</sup>

**\$2.5 billion - 2018**

**\$3.1 billion - 2019**

Estimated cannabis sales volume in California.

The state, local jurisdictions, and cannabis businesses have worked diligently to establish the industry's regulatory structure while simultaneously attempting to implement those regulations. While the general framework of legalization was laid out by the voter-approved state measure, state authorities had to craft the discrete rules that would govern the industry. In addition, cities and counties had to decide if they would allow the industry to operate locally at all; and if so, how they were going to regulate cannabis.

Cities and counties in California have significant ability to restrict cannabis operators in their jurisdiction, and approximately two-thirds of municipalities prohibit cannabis operators outright.<sup>7</sup> However, most of California's large cities allow adult-use cannabis, including Los Angeles, San Diego, San Jose, Sacramento, Oakland, Long Beach, and San Francisco.

As of August 15, 2019, the state has approximately 6,200 active cannabis operator licenses permitting a variety of activities, from cultivation through retail sale. Figure 2.1 shows the number of active medical and adult-use cannabis licenses in a group of seven peer cities.

<sup>6</sup> "California's Biggest Legal Marijuana Market." LA Times, 08/14/19. <https://www.latimes.com/california/story/2019-08-14/californias-biggest-legal-marijuana-market>

<sup>7</sup> "Most of California municipalities ban commercial cannabis activity." MJ Biz Daily, 2/18/19. <https://mjbizdaily.com/chart-most-of-california-municipalities-ban-commercial-cannabis-activity/>

### Figure 2.1 Active California Cannabis Licenses by City and Type

San Francisco has fewer total state licenses than four of seven peers and is below the peer average. Oakland has the most active licenses, with the highest number of manufacturers and retailers in the group.

City	Manufacture	Cultivation	Distribution	Retail	Microbusiness	Testing Lab	Total
Oakland	90	33	107	114	43	0	387
Los Angeles	83	60	110	72	32	1	358
Sacramento	40	35	42	78	6	1	202
Long Beach	46	6	48	21	6	2	129
San Francisco	20	10	22	55	10	1	118
San Diego	19	1	20	17	1	3	61
San Jose	5	12	7	9	8	0	41
<b>Average</b>	<b>43.3</b>	<b>22.4</b>	<b>50.9</b>	<b>52.3</b>	<b>15.1</b>	<b>1.1</b>	<b>185.1</b>

Note: Sorted by total licenses. Retail includes both storefront and delivery-only operators; these different types are broken down in Table 2.2 below. Microbusinesses are authorized to perform multiple activities including supply-chain and retail functions.

Source: California Bureau of Cannabis Control, California Department of Food and Agriculture, California Department of Public Health.

As shown, **San Francisco has fewer active total licenses than four of seven peers and falls below the peer-group average.**

The active licenses shown above include both retail and supply chain operators. Most supply chain operators, such as cultivators, distributors, and manufacturers, are less apparent in the community than retail operators because they are not open to the general public, lack signage, and have limited foot traffic. The most visible “face” of the cannabis industry in the community is typically storefront retailers, which accordingly often draw more scrutiny. Figure 2.2 compares California cities in terms of retail operators (both storefront and delivery retailers) and compares them by population and land area.

### Figure 2.2 Active California Retail Licenses by City

San Francisco falls in the middle of peer cities with respect to storefronts per 100,000 population. Due to its small area, however, it leads the pack in terms of storefronts and any retail per square mile.

City	Retail Licenses		By Population		By Land Area	
	Storefront Retail	Delivery-Only Retail	Storefront per 100,000	Any Retail <sup>8</sup> per 100,000	Storefront per Sq. Mi.	Any Retail per Sq. Mi.
Sacramento	27	54	5.5	16.4	0.3	0.8
Long Beach	24	0	5.0	5.0	0.5	0.5
Oakland	15	142	3.5	36.8	0.3	2.8
San Francisco	30	28	3.4	6.6	0.6	1.2
Los Angeles	79	0 <sup>9</sup>	2.0	2.0	0.2	0.2
San Jose	16	1	1.5	1.6	0.1	0.1
San Diego	17	0	1.2	1.2	0.1	0.1
<b>Average</b>	<b>21.8</b>	<b>7.3</b>	<b>2.8</b>	<b>3.6</b>	<b>0.3</b>	<b>0.5</b>

Note: Sorted by Storefront per 100,000. Retail license totals are slightly different than the previous table due to the inclusion of microbusinesses that are permitted to operate a retail function. Full population and land area table available in Appendix C, California Retail Licenses by City. Source: League of California Cities (2017 population), U.S. Census American Fact Finder (2010 land area).

**San Francisco ranks fourth among seven cities in terms of storefronts per 100,000 people. San Francisco has the highest number of storefronts per square mile and any type of retail (storefront and delivery) per square mile.** While the city has the most retail per square mile, the geographical distribution of these retailers is not evenly distributed across the city and is highly clustered on the city's eastern side. This geographical clustering is further discussed in the following section, *Cannabis in San Francisco* (page 19).

## REGULATORY BACKGROUND

In November 2016, California voters passed Proposition 64, allowing for the production and sale of adult-use cannabis. The law allows adults over the age of 21 to possess and use limited quantities of cannabis sold from regulated and licensed retailers. It also regulates growers, suppliers, distributors, and creates a system of testing and tracking to monitor the cannabis supply chain. The law maintains many of California's existing medical cannabis regulations, which allow individuals to purchase and use cannabis with a medical approval.

<sup>8</sup> "Any retail" includes both storefront and delivery operators.

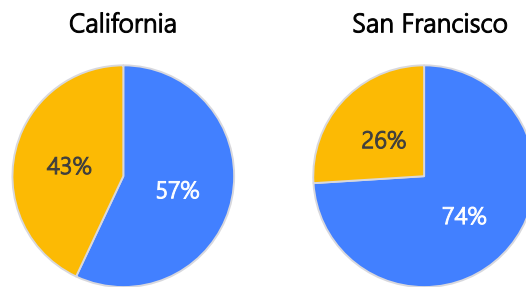
<sup>9</sup> There are yet to be any licensed delivery-only operators in LA; however, some retail operators have authorization for delivery.

Statewide, Proposition 64 passed with 57% of voters approving the measure. Locally, the proposition was overwhelmingly passed with **74% of San Franciscans approving the measure.**

In allowing adult-use cannabis, California joined a growing number of states that allow for adults to possess and recreationally use the substance. This follows a broader national trend towards more permissive laws concerning cannabis. Eleven states and the District of Columbia currently allow adult-use cannabis, and more are expected to legalize in the coming years. Across the nation, dozens of states have also passed laws decriminalizing cannabis possession, allowing medical cannabis, or allowing for some uses of cannabis derivatives for the treatment of certain medical conditions.<sup>10</sup>

**Figure 2.3 Cannabis Legalization Election Results**

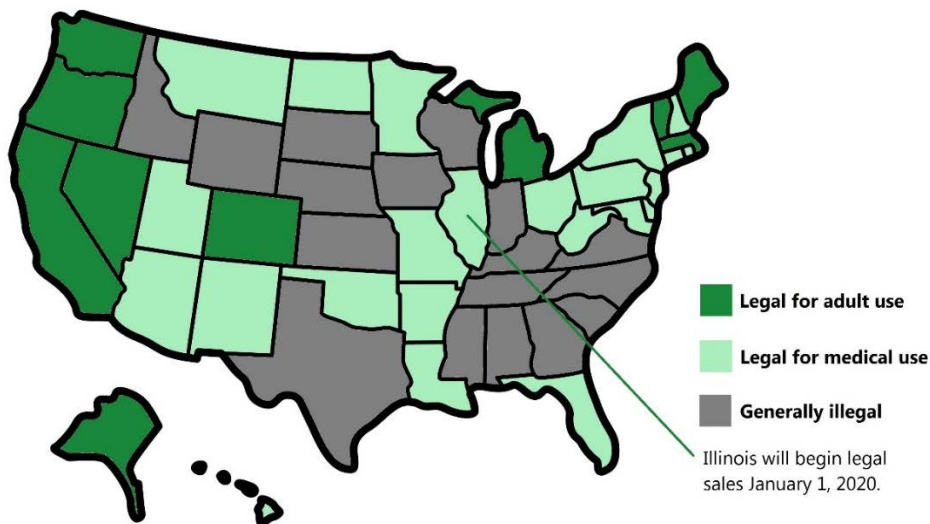
Proposition 64 was approved by a majority of Californians and a large margin in San Francisco.



Source: California Secretary of State, San Francisco Department of Elections

**Figure 2.4 Cannabis Legalization Across the United States**

Eleven states have legalized adult-use cannabis, any many allow medical cannabis use.



Note: This figure is for illustrative purposes only, as many states grouped together in the legend have very different legal approaches to cannabis. For example, "generally illegal" includes some states that have decriminalized cannabis possession or allow limited-THC cannabis products (CBD products), as well as some states in which cannabis and all derivatives are prohibited. Adapted from: Governing Magazine, State Marijuana Laws in 2019 Map. <<https://www.governing.com/gov-data/safety-justice/state-marijuana-laws-map-medical-recreational.html>>

<sup>10</sup> Cannabidiol (CBD) is a non-psychoactive cannabis derivative that has been legalized in many states for consumer use.

Despite the trend among states towards legalization, decriminalization, and medical use, federal law continues to consider the use and possession of cannabis illegal and classifies cannabis as a Schedule I substance. While enforcement of federal law within states that have adult-use cannabis has been limited, the prohibition still presents challenges for cannabis businesses. For example, many banks refuse to accept funds from cannabis retailers for fear of being prosecuted by the federal government or losing certain benefits provided by federal entities. In addition, unpredictable enforcement priorities as signaled by the U.S. Department of Justice have created an uncertain landscape for cannabis businesses that are compliant under state law but federally prohibited.<sup>11</sup>

## REGULATORY FRAMEWORK

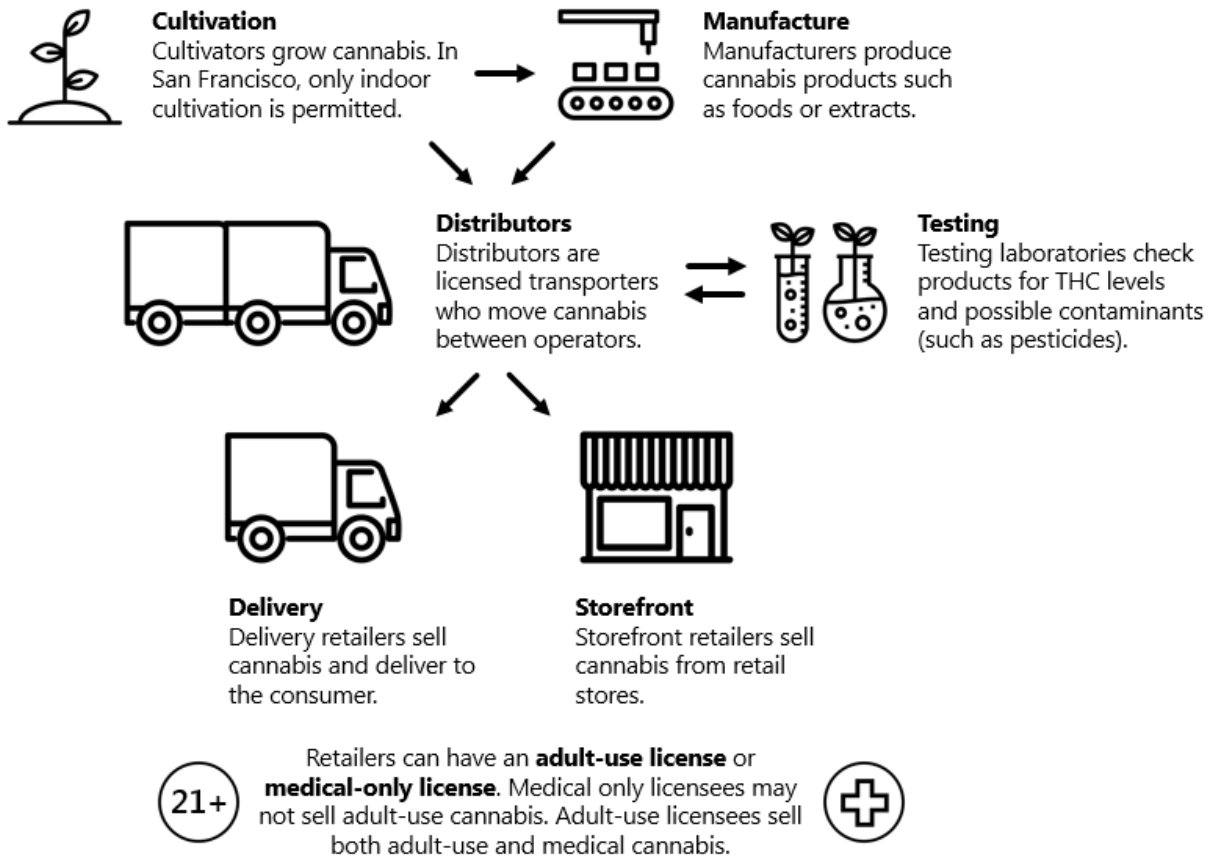
As with other states in which cannabis is legalized, California does not allow for cannabis to come from out-of-state sources and does not allow cannabis to be transported outside the state. In order to monitor cannabis production and transportation, the law licenses each different type of cannabis production activity and requires operators to track cannabis products through the supply chain from “seed to sale.”

### California Permit Types

With the passage of Proposition 64, California implemented a regulatory framework that oversees the functions within the cannabis retail and supply chain with the intent of ensuring a safe supply for consumers while preventing the diversion of cannabis to illegal channels. The framework includes different permit types for each type of cannabis operator.

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<sup>11</sup> In 2013, the Department of Justice released the Cole Memorandum, which indicated that the department would not enforce the federal cannabis prohibition in states with legalized cannabis. Subsequently, former Attorney General Jeff Sessions rescinded the memo, restoring prosecutorial discretion to federal prosecutors. Following Sessions’ departure, Attorney General William Barr expressed support for de-prioritization similar to the Cole Memorandum’s position but has not officially implemented this in Justice Department policy.



Businesses must obtain both a license from the state and a permit from their local jurisdiction to legally operate. Local jurisdictions that allow cannabis operators generally offer permits in the same operator types as the state, however, many places restrict what type of operations can happen within their jurisdiction. San Francisco, for example, prohibits outdoor cultivation. Many local jurisdictions ban cannabis operators outright and prohibit cannabis businesses of any kind within their local jurisdiction.

## San Francisco Permitting Framework

Following the passage of Proposition 64 (statewide proposition), local jurisdictions passed their own ordinances in order to permit or prohibit cannabis operators. In San Francisco, the Board of Supervisors passed two major ordinances in November 2017 that regulate cannabis in the city:

- **Establishing Article 16.** Ordinance 230-17 amended city codes to comprehensively regulate the cannabis industry in the city. It stipulates how businesses obtain permits (known as Article 16 permits), creates regulations surrounding cannabis businesses, and defines the process by which equity applicants are prioritized in permitting.<sup>12</sup>
- **Amending the Planning Code.** Ordinance 229-17 amended the Planning Code to regulate land uses related to the cannabis industry. Cannabis retail storefronts must locate in certain areas, which primarily include land on the city's eastern side but also some commercial corridors throughout the city. Retail storefronts also must not locate within 600 feet of a school or other cannabis dispensary. Other cannabis-related industries (cultivation, manufacture, etc.) must

<sup>12</sup> San Francisco Ordinance 230-17



locate in areas where those types of activities are otherwise permitted (for example, manufacturing must locate in a location properly zoned for manufacturing).

The ordinances prescribed how cannabis operator permits would be issued in San Francisco. Many businesses that were already operating in the cannabis industry were allowed to continue, including Medical Cannabis Dispensaries (MCDs) that had been previously legal. As part of the city's Amnesty Program, it also offered supply-chain operators that may have been operating in the illicit market a pathway to enter the legalized market if they came into regulatory compliance. At the same time, the ordinances were designed to restrict the market such that certain equity applicants would have the opportunity to enter the nascent market early. This was an attempt to recognize and benefit individuals who were disproportionately impacted by the War on Drugs. More details on the equity program can be found in Chapter 3, Equity (page 41).

Cannabis businesses that are currently operating in San Francisco are permitted under one of the following provisions:

- **Medical Cannabis Dispensaries (MCDs).** Businesses that were permitted as MCDs, or were in process to become MCDs before legalization, are allowed to operate under an MCD permit from the San Francisco Department of Public Health. In order to sell adult-use cannabis, MCDs must receive an additional adult-use authorization from the Office of Cannabis. MCDs can be either storefront or delivery-only operators.
- **Temporary Permits.**<sup>13</sup> Businesses that were operating prior to legalization and were located in places that are properly zoned for that type of business are allowed to operate with Temporary Permits from the Office of Cannabis. Temporary permittees cannot be storefront retailers, but they can be delivery-only operators, cultivators, distributors, manufacturers, or testing laboratories.

## CANNABIS IN SAN FRANCISCO

As of August 1, 2019, there were **212 cannabis businesses permitted to operate in San Francisco**, 59 operating with MCD Permits and 153 operating with Temporary Permits. Among permitted businesses, there are 134 supply chain operators and 78 retailers (including both storefront and delivery only). It is difficult to track exactly how many of these businesses are currently operating, but as of August 15, 2019, 35 retail storefronts were in operation out of 37 permitted.<sup>14</sup> In calendar year 2018, cannabis operators generated \$220 million in reported revenue, from which the city received \$2.2 million in sales tax (further details on the cannabis market and tax revenue are in the Chapter 4, Economy (page 55).

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<sup>13</sup> These permits are called "temporary" because operators will be required to seek permanent permits once they become available. Permanent permits will not become available to these operators, however, until equity applicants, incubators, and some other categories of applicants first receive their permanent permits.

<sup>14</sup> There are 212 operators permitted to operate, but fewer than 212 are currently operating. Operators can cycle in and out of operation in between inspection dates. The 118 active state licenses referenced in Table 2.1 more accurately represents the number of businesses currently operating. Most of the businesses that are authorized to operate but are not operating are temporary permittees in supply-chain activities.

### Figure 2.5 Cannabis Businesses by Activity Type in San Francisco

A total of 212 cannabis businesses are permitted in San Francisco, 37 of which are storefront retailers.

Business Activity	Type of Activity	Number of MCD Permits	Number of Temporary Permits	Total
Storefront Retail	Retail	37	-	37
Delivery-only Retail	Retail	22	19	41
Cultivation	Supply Chain	-	45	45
Manufacturing	Supply Chain	-	42	42
Distribution	Supply Chain	-	46	46
Testing Laboratory	Supply Chain	-	1	1
<b>Total</b>		<b>59</b>	<b>153</b>	<b>212</b>

Note: Within the manufacturing activity, there are two permit types: non-volatile manufacturing and volatile manufacturing. There are 41 non-volatile manufacturers and 1 volatile manufacturer.

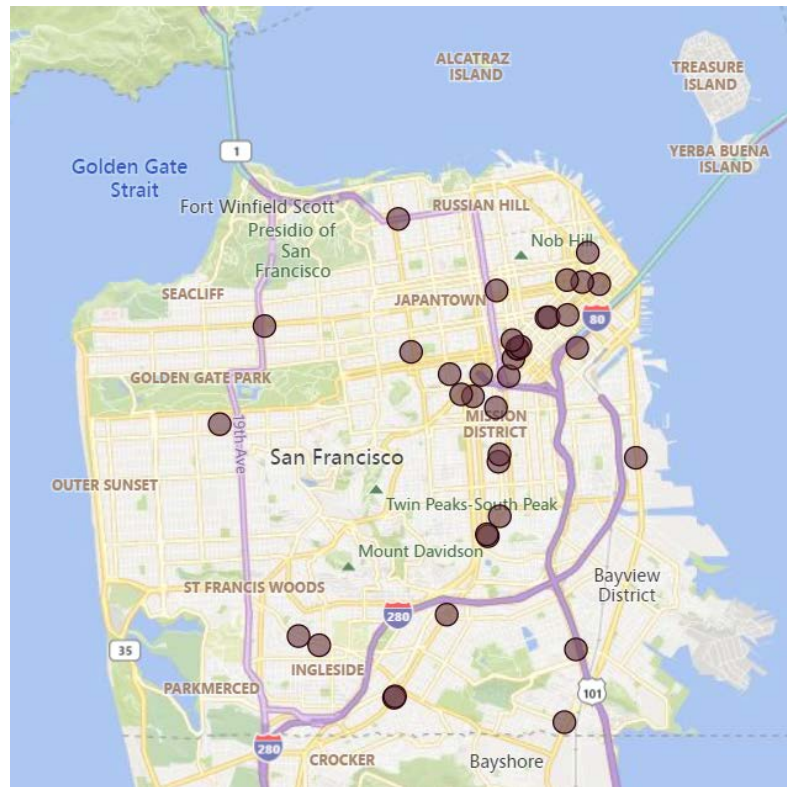
As shown in Figure 2.5, approximately three-quarters of all cannabis operators are permitted with Temporary Permits, the majority of which are supply-chain operators. **There are 37 operators permitted to operate a physical storefront, all of which were medical dispensaries prior to legalization** (or were in process to become medical dispensaries prior to legalization).<sup>15</sup> All MCDs and Temporary Permittees will be eligible for permanent Cannabis Business Permits when the “Existing Industry” phase of the application process opens (see Figure 2.13). Retail and supply chain operators are not evenly distributed throughout the city and tend to be geographically clustered due to both market forces and zoning regulations.

<sup>15</sup> 37 MCDs have permits to operate, 35 are in operation as of August 15, 2019. At the time of publication of this report, there were 39 permitted storefront retail businesses.

By the nature of their business having a storefront location, the most visible cannabis operators tend to be storefront retailers. These businesses are located throughout the city, but cluster most significantly along the Market Street corridor and in the Mission District. Notably, there are very few storefront retailers located on the western portion of the city.<sup>16</sup> New storefront retailers may not locate within 600 feet of another storefront retailer, but a retailer that was operating before the current ordinance came in to effect may be located within 600 feet of another.

Cannabis retailers can also operate as delivery only. These retailers deliver cannabis directly to the consumer and are not permitted to sell cannabis to consumers at their location of business.<sup>17</sup> These retailers tend to have a less obvious physical presence at their location, although frequent product pickups can have an impact on vehicular traffic. The following table summarizes Supervisor District-level information regarding the location of cannabis retailers in the city.

**Figure 2.6 Cannabis Storefront Retailers in San Francisco**  
Storefronts are heavily clustered in the Mission District and along the Market Street corridor.



Note: Delivery-only retail operators not shown.

<sup>16</sup> Additional details on the locations of permitted retail locations is available on the Office of Cannabis website at <https://officeofcannabis.sfgov.org/retail/permitted-locations>.

<sup>17</sup> Delivery-only retailers can deliver products from their place of business directly to the consumer. They are permitted to carry only as much product as has been ordered and are not permitted to carry excess supply in order to receive and deliver new orders as they are mid-delivery (this is sometimes called “dynamic delivery” or the “ice cream truck” model).

### Figure 2.7 Retail Operators (storefront and delivery only) by Supervisor District

Districts range in the number of retailers, from one retailer (District 4) to 25 retailers (District 6). District 3 has the most delivery-only retailers, whereas District 6 has the most storefront retailers.

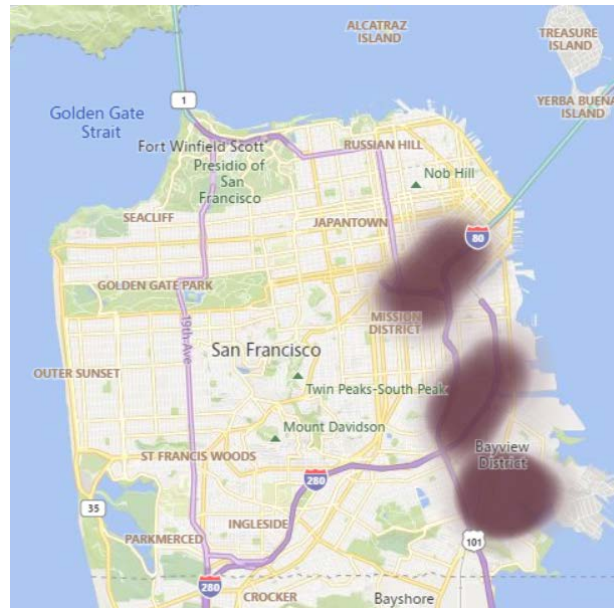
Supervisor District	Storefront	Delivery Only <sup>18</sup>	Total
1 – Fewer	1	0	1
2 – Stefani	1	0	1
3 – Peskin	2	17	19
4 – Mar	1	0	1
5 – Brown	2	0	2
6 – Haney	14	11	25
7 – Yee	2	0	2
8 – Mandelman	2	0	2
9 – Ronen	7	0	7
10 – Walton	2	13	15
11 – Safai	3	0	3
<b>Total</b>	<b>37</b>	<b>41</b>	<b>78</b>

Cannabis supply-chain operators, which represent 64% of all permitted operators, tend to be highly clustered in the city. Geographically, **supply chain operators are located exclusively on the eastern portion of the city and south of Market Street**, including the neighborhoods: South of Market, northern Mission District, Showplace Square, Central Waterfront, Produce Market, Apparel City, Bret Harte and the Bayview. The heat map presented at right shows this concentration.<sup>19</sup>

Supply-chain operators are highly clustered in the city's southeast due to zoning regulations, which require that these operators locate in areas that will permit their activity. Predominantly, operators locate in areas zoned for production, distribution, and repair (known as PDR zones). Depending on the activity type, some operators are also in areas zoned for mixed use.

### Figure 2.8 Cannabis Supply-Chain Heat Map

Supply-chain operators are heavily clustered south of Market Street and in the city's southeast.



<sup>18</sup> The location of delivery-only operators is their registered place of business.

<sup>19</sup> Due to security concerns, the exact location of supply-chain operators has been obscured with a heat map.

### Figure 2.9 Supply-Chain Operators by Supervisor District

Supply-chain operators, which represent 64% of all permitted cannabis operators, are only in Districts 6, 9, and 10, and most-heavily concentrated in District 10.

Supervisor District	Total Permits	Unique Sites	Activity Type	Permits per Activity
6 – Haney	24	14	Distribution	10
			Cultivation	7
			Non-Volatile Manufacture	7
9 – Ronen	8	4	Distribution	3
			Cultivation	2
			Non-Volatile Manufacture	3
10 – Walton	102	46	Distribution	33
			Cultivation	36
			Non-Volatile Manufacture	31
			Volatile Manufacture	1
			Testing Laboratory	1
<b>Total</b>	<b>134</b>	<b>64</b>		

Note: there are 153 total temporary permits, of which 134 are supply-chain operators; this difference is because there are 19 delivery-only retailers permitted with temporary permits. “Unique Sites” is determined by street-level address: 1 Market Street is different than 2 Market Street (two unique locations), but 1 Market Street Unit A is the same as 1 Market Street Unit B (one unique location).

In addition to clustering geographically within the city, supply chain operations tend to co-locate in the same place, as shown in the “Unique Sites” column in Figure 2.9 above. This is due to two distinct reasons:

1. Supply-chain operators must secure a permit for each different activity that they perform. For example, an operator that cultivates cannabis and manufactures a product with that cannabis must obtain two separate permits. Co-location of permits therefore reflects some vertical integration in the cannabis supply chain, with many operators performing more than one production activity.
2. Some buildings that are zoned for cannabis lease different units or suites within one address to different cannabis operators. Anecdotal reports from cannabis operators indicates that some landlords in the city are hesitant to rent to cannabis businesses, which may encourage clustering in buildings that have landlords that are willing to rent to them.

## 2.0

Average number of activity types per San Francisco supply-chain business.

As a result, **cannabis supply chain operators tend to co-locate multiple different production activities in one site and to co-locate in the same place as other cannabis operators.** The following table analyzes supply-chain operators and how many activities each operator is performing.

**Figure 2.10 Supply-Chain Activities per Operator**

Two-thirds of supply-chain operators perform more than one production activity.

<b>Number of Activities per Operator</b>	<b>Number of Operators <sup>20</sup></b>	<b>Total Number of Permits</b>
Four Activities	4	16
Three Activities	15	45
Two Activities	23	46
One Activity	24	24

## PERMITTING STRUCTURE IN SAN FRANCISCO

The legalization ordinances passed in San Francisco attempted to balance two priorities: first, allowing existing operators to continue their business, and second, creating space for individuals who had disproportionately been impacted by the War on Drugs to enter the new market. The responsibility of overseeing these priorities falls on the Office of Cannabis, which during its first year was tasked with regulating the existing industry, establishing an amnesty program for the unregulated industry, implementing the equity program and verifying applicants, and developing a new, web-based cannabis permitting application system.

### Equity Applications and Additional Priority Groups

To accomplish these dual goals, the legislation allowed for existing operators to apply for adult-use permits and continue operating with temporary authorization, but no other applicants are allowed to enter the market until individuals who are qualified as equity applicants are permitted. In order to be verified as an equity applicant, individuals must fall below a threshold of household assets<sup>21</sup> and are required to meet three of six criteria, as specified by the Board of Supervisors, and provide proof of those conditions. These criteria, and how applicants have qualified thus far, are shown in the following table.

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<sup>20</sup> There are some owners that own more than one entity in this category. For example, one ownership group may have two different entities (at different locations) doing four activities each.

<sup>21</sup> Household assets must be below three times 80% of the average median income in San Francisco.

**Figure 2.11 Criteria for Equity Applicants**

Approximately 85% of verified equity applicants qualified with the same four criteria.

<i>How to qualify:</i>		<i>How applicants have qualified:</i>
	<b>Criteria</b>	<b>Percentage qualified among verified applicants</b>
<b>Meet three of the six criteria shown at right:</b>	Have a household income below 80% of the average median income (AMI) in San Francisco for 2018.	25.9%
	Attended school in SFUSD for a total of 5 years from 1971 to 2016.	23.3%
	Lived in San Francisco census tracts for 5 years from 1971 to 2016 where at least 17% of the households had incomes at or below the federal poverty level.	20.7%
	Have been arrested or convicted for a cannabis-related crime (including as a juvenile) from 1971 to 2016.	15.5%
	Lost housing in San Francisco after 1995 through eviction, foreclosure, or subsidy cancellation.	7.4%
	Have a parent, sibling, or child who was arrested or convicted for a cannabis-related crime (including as a juvenile) from 1971 to 2016.	7.3%

As shown in Figure 2.11 above, equity applicants have not been verified by all criteria equally, with the top four criteria being used to qualify 85.4% of applicants. The Office of Cannabis reports that this is likely due to the difficulty in proving certain criteria relative to others, rather than a qualitative difference between applicants. For example, SFUSD tends to have student records dating back many years, but individuals are unlikely to have kept record of a notice of eviction.

It is important to note that this process of equity verification takes time. While the Office of Cannabis estimates that they can verify an applicant in a matter of days if all their documentation is in order, it often takes several rounds of back and forth with applicants to understand the requirements and secure acceptable documents. Applicants must contact several individuals or agencies to secure this documentation, and the process can take weeks or months. Obtaining equity verification requires significant effort by the applicant, and it is being performed by applicants who have been specifically targeted because of their disadvantaged status. This entire process must happen before the equity applicant can begin to apply for an operating permit.

**298**

Verified equity applicants

As of August 15, 2019, **298 applicants had been verified as equity applicants**. From verified applicants, the Office of Cannabis had received 183 applications for Cannabis Business Permits, and from those permits, applicants have indicated 277 different uses they intend to permit, as shown in Figure 2.12.



**Figure 2.12 Equity Applicants, Equity Applications, and Activities Applied For**

Among equity applications received, 73% indicate storefront retail as an intended activity.

Category	Number	Percent of Applications*
Verified Equity Applicants	298	-
Permit Applications Received from Equity Applicants	183	100%
Business Activities Applied For	-	-
Storefront Retail	133	73%
Delivery-only Retail	46	25%
Cultivation	17	9%
Manufacturing	31	17%
Distribution	50	27%
Testing Laboratory	0	0%
<b>Total Activities Applied For</b>	<b>277</b>	

Note: Percent of Applications uses the number of Permit Applications Received as the denominator. Applications can specify more than one intended activity; thus, the percentages total is greater than 100%. The percentages expressed in the table can be expressed as "73% of applications received indicate storefront retail as an intended activity."

As shown in Figure 2.12, the distribution of equity applications across possible activities is uneven: at the high end, 73% of applications indicate wanting to establish storefront retail; conversely, only 9% of applications want to establish cultivation, and no applications have been received to establish a testing laboratory. **At 133 proposed storefront retailers, there is such a high number of applicants intending to establish storefront retail that this activity may not be viable for many of these equity applicants**, who may be expending resources in order to reach a market that may already be saturated. For more details on this point, see Chapter 3, Equity (page 44).

Following equity applicants, there are additional groups of individuals that get priority permitting status (see Figure 2.13). The second tier of priority permit processing after equity applicants is equity incubators, which are businesses that offer a certain level of assistance to equity applicants. This can be in the form of rent-free space or technical assistance.<sup>22</sup> Third in priority are previously-existing non-conforming operators (PENCOs), which are businesses that were already operating prior to legalization, but were not in zoning-compliant locations. This third tier also includes a specific group of previously operating businesses that were shut down due to federal enforcement or the threat of federal enforcement. The intent of this third tier of priority is to allow operators that may have been operating in the illicit market an opportunity to enter the regulated legal market, as part of the city's Amnesty Program.

<sup>22</sup> Equity incubator applications are further prioritized in the following order: first, incubators offering rent-free offsite space (space not shared with the incubator); second, incubators offering rent-free onsite space (space co-located with the incubator); and third, incubators offering technical assistance.



The fourth tier of priority application processing is existing industry. These existing industry operators are the MCDs and temporarily licensed operators who are currently operating in San Francisco and were operating prior to legalization. As of August 15, 2019, these are the only operators currently operating in the city, and there have been no new entrants to the market other than MCDs who had applied for a permit prior to legalization and were pending approval.

For the tiers after equity, each tier cannot be processed until all the applications in the previous tier have begun processing. Currently, only applications for equity applicants are being processed, and no other tiers are being considered. Within each tier, applications are processed according to the time they were received on a first-come, first-serve basis. This permitting framework, as well as which types of businesses are currently operating, is shown in the following table.

**Figure 2.13 Operating Status and Ability to Apply for Cannabis Permits**

No new entrants have yet been permitted to operate a cannabis business in San Francisco.

Existing Industry Pre-Legalization		New Entrants					
Medical Cannabis Dispensaries	MCDs that were permitted or in-process for permits prior to legalization are allowed to continue operating with temporary permits.	First Priority: Equity Applicants	Individuals who qualify under the equity program get first priority in permitting.				
Existing Industry in Compliant Location	Businesses in operation prior to legalization in a zoning-compliant location are allowed to continue operation with temporary permits.	Second Priority: Equity Incubators	Operators who help an equity applicant establish a business get second priority in permitting.				
Existing Industry in Non-Compliant Location	Businesses in operation prior to legalization but in non-compliant zoning were required to cease operation. They may apply for permanent permits as a PENCO (see right).	Third Priority: PENCO & Federally Enforced	Previously existing non-conforming operators get special permitting privilege, as do operators that were forced to shut down as a result of federal enforcement.				
<div>Legend</div> <table><tr><td>Currently operating</td><td>Applications under review</td></tr><tr><td>Applications not under review</td><td>May not apply</td></tr></table>		Currently operating	Applications under review	Applications not under review	May not apply	Fourth Priority: Existing Industry	MCDs and existing industry (as shown on top left).
		Currently operating	Applications under review				
		Applications not under review	May not apply				
		Fifth Priority: Community Commitments	Operators that have entered Community Benefit Agreements may apply for permits before general applicants.				
Sixth Priority: General Applicants	Application is open to all; however, each activity type must have at least 50% equity representation to open (see next table).						

Note: Within each category, applications are processed in the order they are received as reflected by a timestamp at submission.

Allowing existing operators to continue functioning, as shown in the left-hand column in table above, has ensured that San Francisco has legally operating cannabis retailers and suppliers. However, **apart from medical dispensaries that were in-process for a permit before legalization, all of the currently operating businesses existed prior to legalization.**<sup>23</sup> There have yet to be any new operators from the pool of equity applicants seeking permanent permits, meaning that the growth of the cannabis industry in San Francisco has been significantly curtailed since legalization.<sup>24</sup>

## Permanent Permits

The Office of Cannabis has been tasked with processing equity applicant verification, the permanent permit applications that stem from those verifications, and simultaneously designing a system to process these various applications. **Due to the complexity of this system and a lack of staff resources to execute it, there is a significant backlog of applications.** Currently, only equity applicants are being processed for permanent permits, although the Office of Cannabis does have applications from other types of applicants that will not be processed until equity applications are finished.

### Figure 2.14 Application Backlog in the Office of Cannabis

As of August 15, 2019, the Office of Cannabis was processing 183 applications from verified equity applicants, which is slightly more than half of the 354 total applications that are currently in queue.

Application Priority		Number of Applications
1.	Equity applicants	183
2.	Equity incubators	26
3.	PENCO & Federally Enforced <sup>25</sup>	4
4.	Existing Industry	141
5.	Additional Priority Levels	<i>Application Not Open</i>
<b>Total</b>		<b>354</b>

Permit application processing follows a series of steps that is overseen by the Office of Cannabis but involves a number of additional departments. This typical process is described in brief below. The number of equity applications in each stage are shown on the visual on the following page in Figure 2.15.

<sup>23</sup> Medical dispensaries that were “in-process” are MCDs that applied for a permit with the Department of Public Health prior to legalization.

<sup>24</sup> While there have been no new entrants, operators have had to undergo inspection and implement corrective actions in order to meet regulations. The portion of the industry that is in regulatory compliance has grown significantly.

<sup>25</sup> Previously-existing non-compliant operators (PENCOs) were existing businesses that were not properly zoned for their business activity in their location. Federally Enforced are a specific subset of operators that closed due to federal prosecution or the threat of federal prosecution.

### Figure 2.15 High-Level Application Approval Process

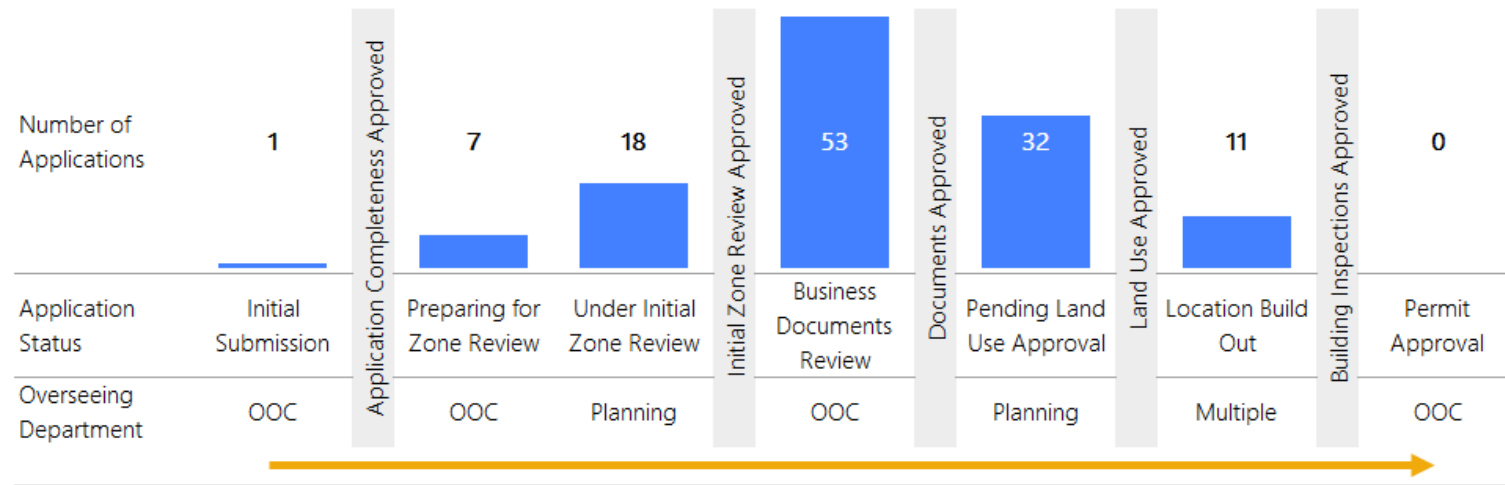
Applications generally move sequentially through these steps, although changes to an application while in-process may require revisiting certain steps.

<b>1. Initial Submission</b>	The applicant submits their application materials to the Office of Cannabis, including an application form and a number of additional documents that must be provided by the applicant, such as business formation documents and proof to occupy their current business location.
<div data-bbox="524 441 1039 468" style="text-align: center;"><b>Milestone: Application Completeness Approved</b></div> <div data-bbox="302 472 1260 499" style="text-align: center;">The Office of Cannabis reviews submissions to ensure that minimum documentation is provided.</div>	
<b>2. Preparing for Zone Review</b>	The Office of Cannabis officially accepts the application and begins processing. The application is prepared for an initial zoning review.
<b>3. Under Initial Zone Review</b>	Applications are informally reviewed by the Planning Department to ensure that the type of business applied for is viable in the proposed location.
<div data-bbox="561 657 1000 684" style="text-align: center;"><b>Milestone: Initial Zone Review Approved</b></div> <div data-bbox="228 688 1333 749" style="text-align: center;">The Planning Department verifies that the business activity is allowed in the zoning district. For most applicants, additional approval will be required (a Conditional Use Authorization) from the Planning Commission.</div>	
<b>4. Business Documents Review</b>	The Office of Cannabis reviews each applicant's business documents. This includes business formation documents, proof to occupy the space, and any corporate governance materials between owners and investors. <sup>26</sup> Applicants must also pass a background check performed by the Police Department.
<div data-bbox="602 888 959 915" style="text-align: center;"><b>Milestone: Documents Approved</b></div> <div data-bbox="250 919 1310 978" style="text-align: center;">The Office of Cannabis verifies that all of the applicant's documents are in order to establish their business. Part one of the application is approved.</div>	
<b>5. Pending Land Use Approval</b>	Unless the proposed business activity is principally permitted or eligible for discretionary review, applications require a Conditional Use Authorization from the Planning Commission. These applicants must be referred to the Planning Commission and be approved at a weekly commission hearing.
<div data-bbox="615 1115 946 1142" style="text-align: center;"><b>Milestone: Land Use Approved</b></div> <div data-bbox="329 1146 1230 1173" style="text-align: center;">Applicants receive land use approval and may proceed to build out their business location.</div>	
<b>6. Location Build Out</b>	Applicants may build out their space for their business activity, which requires permitting and inspections from the Department of Building Inspection. Depending on their business activity, this step may also require permits and inspections from the Department of Public Health, Fire Department, Police Department, and the Mayor's Office of Disability.
<div data-bbox="553 1325 1008 1352" style="text-align: center;"><b>Milestone: Building Inspections Approved</b></div> <div data-bbox="277 1356 1282 1383" style="text-align: center;">The applicant's business space has been fully built out and complies with city zoning and regulations.</div>	
<b>7. Permit Approval</b>	The Office of Cannabis provides approval and part two of the application is approved. The applicant receives a Permanent Cannabis Permit, which must be renewed annually.

<sup>26</sup> The Office of Cannabis reports that a significant amount of time and resources are spent reviewing corporate governance documents to ensure that distributions, voting, and other items reflect ownership interests, particularly between equity applicants and investors.

**Figure 2.16 Application Status Among Equity Applications**

Among 183 submitted equity applications as of August 15, 2019, the largest category of application status is “Business Documents Review” with the Office of Cannabis, with 53 applications. Following that, 32 applicants are waiting for land use approval from the Planning Commission.<sup>27</sup>

**Special Status**

Status	Number of Applications	Notes
Applications on Hold	19	Applicants who have applied for a storefront location within the 600 foot buffer of another application that was received earlier may be put on hold. The OOC will not process these applications until they have a viable location to move forward.
Applications Withdrawn by Applicant	33	Applicants may withdraw their application at their choice. Many of these applications are from applicants who have reapplied with another application.
Applications Denied	9	Applications can be denied for improper zoning, failure of background check, or conducting unlicensed activities.

<sup>27</sup> As of October 23, 2019, there are 58 applicants waiting for land use approval from the Planning Commission and 13 applicants in the location build out stage.

As shown in Figure 2.16, the applications that are farthest along in the process are in the location “build out” stage. No applications (equity applications) have yet been approved to receive a permanent permit. It is worth noting that for many other types of business other than cannabis, this “build out” stage is where those businesses would start their permitting process—a process that in itself can involve many departments and be lengthy and complex.

The application process for equity applicants opened in May 2018, and as of August 2019, no applicants have finished it and become permitted; although some hope to do so before the end of the year. That means the process from application to approval will be somewhere between 13 and 19 months for applicants whose applications were well-developed and experienced few delays in the process. **The average applicant currently in queue can likely expect to wait longer, from 18-24 months before being permitted.**<sup>28</sup> For someone submitting their permit application as an equity applicant today, there is such a significant backlog of applications that it will take at least six months before their application would begin processing by the Office of Cannabis following initial submission.<sup>29</sup>

The current process is also reliant on a number of dependencies with departments outside of the Office of Cannabis. Applications must twice be reviewed by the Planning Department: first for an initial zoning review and again for land use approval. Applicants must also pass a background check administered by the Police Department. While equity applicants are the first priority for the Office of Cannabis, they have no elevated priority with any other department. Even if the Office of Cannabis was able to process applications quickly, there would still be significant delay as applicants went to the “bottom of the stack” at each other department they visited. All of this happens before applicants start building out their location, which again requires pulling permits from departments like Building Inspection and Fire, and possibly Public Health, Police, and the Mayor’s Office of Disability; all of which offer no special priority for these applicants.

## Impact on Equity Applicants

During their application processing wait time, applicants must hold their planned business location or ensure that it will be available when they are ready to occupy. Because applications are tied to this business location, applicants may have to carry the location costs (e.g., rent) for the entirety of the permitting process. This can be an enormous cost to applicants in a city with one of the highest commercial rents in the country. In addition, applicants anecdotally report that some landlords charge more rent for proposed cannabis business locations due to limited availability and potential federal liability. While some applicants may be able to use their space to generate revenue while they wait, many are on the hook for costs that could easily reach hundreds of thousands of dollars while they wait for approval.

To cover these costs, some equity applicants are incurring debt and/or are selling ownership shares in their companies to investors who can provide much-needed capital. This decreases the benefit equity applicants may eventually be able to earn from the business and increases the potential for large and well-funded entrants to the San Francisco market during this equity phase.

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<sup>28</sup> Per Office of Cannabis estimated timelines as of August 2019.

<sup>29</sup> Applications are initially reviewed for completeness shortly after submission (within days) to ensure incomplete applications are not held in the queue. No further processing would occur for six months. This stage is reflected in Step 2 of Figure 2.15.

**The conditions of equity verification attempt to identify individuals who have been disadvantaged by the War on Drugs, yet these are the individuals bearing the costs of a lengthy application process.** While the intent of the city’s legislation was to benefit equity applicants by providing priority access to the cannabis market, no equity applicants have yet been able to establish a new operating business. Without additional investment to help these applicants navigate the city’s complicated multi-departmental permitting process, the city risks creating a situation where these individuals—who were specifically chosen because of their existing disadvantage—are further disadvantaged by the city’s inability to provide timely permit processing.

Because this permitting process was completely new, there have been startup costs for the city related to developing application systems, establishing review processes, and creating the linkages between departments necessary to review applications. The Office of Cannabis expects that once this process is well-established, processing time will decrease. This means that equity applicants have disproportionately borne the cost of the city’s development of its processes; processes that will become more efficient by the time non-equity applicants are being processed. Additional details on the equity program are discussed in Chapter 3, Equity (page 41).

## Ratios for General Applicants

Per the city’s legalization ordinance, general applicants are not allowed to apply for a permit to operate until “the total number of Cannabis Business Permits awarded to Equity Applicants in the permit category sought by the Applicant has reached 50% of the total number of [permits] in that permit category.”<sup>30</sup> That means that for each permit category, such as retail, distribution, or cultivation, equity businesses must make up 50% of all permits before a general applicant permit can be accepted.

Given that existing operators currently make up the pool of all issued permits, that means that the number of equity permits in each activity will need to match the current pool of operators in that activity before any general applicants can apply.<sup>31</sup> This is illustrated in Figure 2.17.

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<sup>30</sup> SF Municipal Code Section 1606 (b)

<sup>31</sup> There are some existing operators who qualify as equity applicants. As yet, it has not been determined how these operators should be counted in the 50% representation formula.

### Figure 2.17 Existing Permits vs. Equity Permits, by Activity Type

Cultivation and manufacturing do not have enough equity applications in queue to reach 50% representation by equity permits, barring entry to that activity by general applicants.

<b>Business Activity</b>	<b>Number of Existing Permits for Activity</b>	<b>Number of Equity Applications for Activity</b>
Storefront Retail	37	133
Delivery-only Retail	41	46
Cultivation	45	17
Manufacturing	42	31
Distribution	46	50
Testing Laboratory	1	0

Note: Applications can express an intent to apply for more than one activity: out of a total of 183 applications in queue there are 277 intended activities. Some operators will not end up establishing an operating business, and some will establish a business but in fewer activities than was originally specified on their application.

The right-hand column in Figure 2.17 shows all equity applications currently in queue; the number that will actually receive a cannabis business permit in that activity type will be lower as applicants drop out of certain activity types.

The 50% equity representation condition has a different potential impact according to each activity type shown above. For example, if all 46 equity delivery-only retailers are permitted, that activity will have more than 50% equity representation. In cultivation or manufacturing, however, there are currently not enough equity applicants for this pool to reach 50% representation. With 45 cultivators currently operating, and only 17 equity applicants expressing an intent to establish a cultivation business, this activity type will not open to general applicants unless more equity applicants apply for this activity type. There is no sunset date associated with these regulations, as there are for equity programs in some other peer cities.

## Devaluing of Priority Tiers

Equity applicants currently in the application queue are facing long wait times for application processing, but the additional priority tiers of applicants (e.g., second-priority equity incubators, third-priority previously-existing non-conforming operators) face an even longer wait. These applications cannot be processed until all equity applications have been processed. **Due to the length of the permitting timelines currently facing the secondary and tertiary-priority applicants, the priority processing incentives promised to these applicants have failed to materialize.**

While there is a backlog of equity applicants, per the city's legalization ordinance, no other types of applicants can be processed. Any of these lower-priority tiers of applicants are easily more than a year away from having their applications begin processing, in addition to the lengthy application processing time. This has, at least to-date, rendered the value of having this priority status negligible. Because a lower-priority applicant would need to be holding (renting or owning) the same business location that is on their submitted application, it might actually be a net negative for an operator to hold that space but have to wait multiple years before operating.



Currently, there are 26 applications in queue from equity incubators, which is low in comparison to the number of equity-qualified applications they could be incubating (183), as shown in Figure 2.14. This is likely due to the lengthy application period facing incubators: with a delay of many years to enter the San Francisco market, it is more lucrative for potential incubators to instead directly fund an equity applicant-owned business in exchange for ownership share. As discussed in the previous section, *Impact on Equity Applicants* (page 30), equity applicants need this funding to float the carrying costs of their companies while they wait for permit approval. While the investing company does not outright own the business, as they would have if they incubated, they are able to get to market much faster, albeit with a maximum of 60% ownership of the company.<sup>32</sup>

Instead of a situation where there are many equity applicants being assisted by many equity incubators, there are instead many equity applicants who are selling ownership share of their businesses to would-be incubators, and very few actual incubators. **Purchasing an ownership percentage of equity-owned businesses has become the primary method for non-equity applicants to enter the San Francisco market, including large multi-state cannabis companies.**

This effect of devaluing the priority processing tiers is also true for previously-existing non-conforming operators (PENCOs). These individuals were operators who had existing businesses but who were not in locations properly zoned for their business (e.g., a cannabis baker who produced products in their kitchen). These individuals were offered third-priority status in permitting in exchange for voluntarily signing an affidavit that they would cease activity at the current location. The benefit offered to PENCOs in exchange for their voluntary cooperation has failed to materialize, however, and PENCO applicants are at least two years from operating a business.

Moreover, PENCOs were likely among a pool of operators that were less resourced than operators in conforming locations, given that many would have moved to a conforming location if possible. In effect, more well-resourced operators were allowed to continue operating, while less-resourced operators were shut down. Given the length of time that has already passed, and current approximate two-year horizon before they will possibly receive a permit, these operators may have either moved to other pursuits or have restarted their operation in the illicit market.

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<sup>32</sup> To qualify as an equity-applicant owned business, the equity applicant must own no less than 40% of the business entity.

## SAN FRANCISCO OFFICE OF CANNABIS

For its first year of operation, the Office of Cannabis was staffed by three full-time employees, including the Director. During this time, it was responsible for overseeing the transition from medical to adult-use cannabis for existing dispensaries, permitting and inspecting previously illicit operators as part of the amnesty program, establishing the equity program and verifying applicants, and setting up a new permit application process including establishing the inter-departmental channels for application review. In its second year, the office received three more positions, but its duties have continually expanded to oversee the entire adult-use cannabis market in San Francisco. The Office of Cannabis summarizes its core functions as shown in the table below.

**Figure 2.18 Core Functions of the Office of Cannabis**

The office currently oversees seven core functions with an eighth (oversight committee) to be added by October 2020.

Function	Duties
Equity Verification and Support	Verifying equity applicants, working with applicants to obtain adequate documentation, and coordinating assistance and resources for equity applicants.
Permitting Businesses and Events	Processing adult-use permits for existing operators and permanent permits for equity applicants. In August 2019, the office permitted its first event.
Rulemaking	Developing regulations regarding cannabis and working with state and local policymakers to craft and implement those regulations.
Enforcement	Overseeing the existing cannabis industry. The office is the only enforcement agency regulating the cannabis industry in the city.
Community Outreach	Working with the community to advance the social and equity goals of the office, including community events and forums.
Collaboration with City Partners	Working with other city agencies to expedite the permitting process for applicants who must seek approval from these agencies.
Limit Youth Access and Exposure	Educating youth regarding the impact of cannabis use and discouraging underage access.
Oversight Committee	Beginning by October 2020 the office will have an oversight committee that will require staff time to liaise with and be responsive to.

As shown in Figure 2.18, the Office of Cannabis has seven core functions, with an additional function to be added with the formation of the Cannabis Oversight Committee. With current staffing of six, including the Director, there is not sufficient staff time to dedicate particular staff to each function. Ideally, the office could maximize efficiency through specialization, dedicating individual employees to particular expertise areas, such as one or more core functions. With limited staff, however, each position must designate a portion of their time to each of the seven functions. In practice, staff are pulled in different directions depending on new developments or demands on the office, especially given the dynamic early stages of this regulatory landscape. For example, when the Outside Lands festival was approved for a cannabis event permit, staff had to work shifts throughout the weekend in order to oversee the event.

While the Office of Cannabis expanded in FY 2019-20, it will also be receiving the additional function of working with the newly-established Cannabis Oversight Committee. The office reports that they do not

have the resources to dedicate any more staff time to permitting functions, and as is, have very little time to focus on the “enforcement,” “community outreach,” and “limit youth access and exposure” functions tasked to their office.

At current staffing levels, the Office of Cannabis expects that an equity applicant who submitted their application for a business permit today would not have their application even looked at for at least six months. That is six months in addition to the lengthy review process that would then have to happen before the applicants could begin building out their space.

By establishing a **complex permitting framework that requires significant resources to develop and oversee, but not providing adequate resources to oversee that process, the city has undermined its own equity goals and intent to eliminate the illicit market**. While some equity applicants are nearing the completion of this process, many more are still awaiting permit approval while they pay the carrying costs of holding a business location. In addition, the other non-equity priority tiers for permitting have yet to see benefit from this priority status.

## Revenue Generation

The Office of Cannabis collects fee revenue with each new permit and annual renewal granted, and in the long term will be a revenue-generating office. Equity applicants, however, are granted fee waivers for their applications (although they will be responsible for annual renewal fees). During the time that the office has a backlog of equity applications and is unable to issue permits and annual renewals to any other types of applicants, it is not generating revenue.

The office was able to achieve some fee recovery in FY 2018-19, as it received some fee revenue from MCDs and supply-chain operators. This generated approximately \$360,000 for the office, offsetting slightly less than half of its annual budget. In FY 2019-20, however, the office projects that it will not collect any fee recovery due to its application backlog.

### Figure 2.19 Office of Cannabis Revenue Generation

The office recovered \$360,000 in its first year but projects it will recover nothing in its second year.

Fiscal Year (FY)	Fee Recovery <sup>33</sup>	OOC Budget <sup>34</sup>
FY 2018-19	\$360,000	\$788,316
FY 2019-20	\$0	\$1,029,948
FY 2020-21	\$350,000	\$1,579,196
FY 2021-22	\$1,211,500	\$1,626,572
FY 2022-23	\$1,691,500	\$1,675,369
FY 2023-24	\$1,931,500	\$1,725,630
FY 2024-25	\$1,931,500	\$1,777,399

<sup>33</sup> The Office of Cannabis may generate some revenue from event permitting, but it is currently unknown how many events will be permitted. If event permitting proceeds, the revenue will likely be in the \$10,000 to \$25,000 range.

<sup>34</sup> For a full list of city departments and their budget related to cannabis regulation, see Appendix D, Citywide Adult-Use Cannabis Regulation and Enforcement Expenditures.

These estimates are based on the Office of Cannabis being able to permit some revenue-generating tiers of applicants and secure renewal fees from equity-applicant businesses starting in FY 2020-21. This is contingent on the office having the resources to eliminate the current application backlog and permit the pool of qualified equity applicants.

Given that the office is currently revenue negative and will not be revenue positive until it processes its equity applications, some form of temporary assistance to the Office of Cannabis to work through its current backlog would pay dividends in the form of reaching revenue generation sooner. In order to reach the point of revenue generation without creating permanent expenses, the Office of Cannabis may want to consider utilizing temporary positions.

## KEY FINDINGS AND RECOMMENDATIONS

Topic	Finding
<b>Cannabis Industry in San Francisco</b>	<b>2.1</b> San Francisco falls in the mid-range of its peers in terms of total active cannabis business licenses, which include both retail and supply-chain licenses and in terms of total retail licenses per 100,000 population. It has the highest number of retail licenses per square mile. (Page 13)
	<b>2.2</b> There are 212 cannabis businesses authorized to operate in San Francisco, including both retail and supply-chain operators, but the actual number operating is likely closer to 118. (Page 17)
	<b>2.3</b> There are 37 authorized cannabis retail storefront operators, all of which were MCDs prior to legalization, or were in process to become MCDs prior to legalization. (Page 18) <ul style="list-style-type: none"> <li>These storefronts are highly clustered within the Mission District and along the Market Street corridor.</li> </ul>
	<b>2.4</b> There are 41 authorized delivery-only retailers, all of which were MCDs prior to legalization, were in process to become MCDs prior to legalization, or had to prove that they were in operation prior to legalization. (Page 18)
	<b>2.5</b> There are 134 authorized cannabis supply-chain operators, all of which had to prove they were in operation prior to legalization. (Page 21) <ul style="list-style-type: none"> <li>These supply-chain operators are highly clustered in the South of Market neighborhood and the city's southeast neighborhoods.</li> </ul>
<b>Applications in Queue</b>	<b>2.6</b> There are 298 verified equity applicants as of August 15, 2019. (Page 23)
	<b>2.7</b> There are 183 submitted applications from verified equity applicants as of August 15, 2019. (Page 23) <ul style="list-style-type: none"> <li>122 of these applications are being actively processed, 19 are on hold, 33 have been withdrawn by the applicant, and 9 have been denied.</li> </ul>
	<b>2.8</b> At 133 proposed storefront retailers, there is such a high number of applicants intending to establish storefront retail that this activity may not be viable for many of these equity applicants, who may be expending resources in order to reach a market that may already be saturated. (Page 24)
	<b>2.9</b> There are an additional 173 applications from individuals who are not equity applicants, but have some other authorization to apply, such as equity incubators and previously-existing operators. (Page 24) <ul style="list-style-type: none"> <li>Per San Francisco ordinance, none of these 173 applications can be processed until after all of the equity applications are processed.</li> </ul>
	<b>2.10</b> The application process for equity applicants opened in May 2018 and the furthest-along applicants hope to be operating before the end of the year. The process from application to approval will be somewhere between 13 and 19 months for these applicants. (Page 30)
	<b>2.11</b> The average applicant currently in queue can likely expect to wait 18-24 months before being permitted due to the current backlog, the intensive process of application review, and the dependencies on multi-departmental approval. (Page 30)

Topic	Finding
	<p><b>2.12</b> For an equity applicant submitting a permit application today, there is such a significant backlog of applications that it will take at least six months before their application begins processing by the Office of Cannabis. (Page 30)</p> <p><b>Recommendation 2.A:</b> As there have been no permanent cannabis business permits issued and the current operator pool is primarily businesses that were operating prior to legalization, it would be premature for the Controller's Office to recommend numeric limits to cannabis business permits at this time.</p> <p><b>Recommendation 2.B:</b> As there have been no permanent cannabis business permits issued and the current geographic distribution of cannabis operators largely predates legalization (operators were primarily pre-existing), it would be premature for the Controller's Office to recommend geographic limits to cannabis business permits at this time.</p> <p><b>Recommendation 2.C:</b> The Board of Supervisors and Mayor should consider a moratorium on new storefront retail applications. In addition, they should consider methods of reducing the number of current storefront retail applications in queue, such as incentives to change pending storefront retail applications to other business activities. (See also Recommendation 3.A)</p>
<b>Equity Applicants</b>	<p><b>2.13</b> The current application review process is reliant on departments outside the Office of Cannabis to process applications timely. While equity applicants are the first priority for the Office of Cannabis, they have no elevated priority with any other departments. (Page 30)</p>
	<p><b>2.14</b> To cover costs while waiting for application approval, many equity applicants are incurring debt and/or selling ownership shares in their business to investors who can provide capital. (Page 30)</p> <ul style="list-style-type: none"> <li>▪ This diminishes the benefit that equity applicants will eventually derive from their businesses and decreases their control of the business entity.</li> <li>▪ Without additional investment to help equity applicants navigate the city's complicated multi-departmental permitting process, the city risks creating a situation where these individuals—who were specifically chosen because of their existing disadvantage—are further disadvantaged by the city's inability to provide promised benefits in a timely manner.</li> </ul>
	<p><b>2.15</b> Due to start-up costs on the part of the city related to setting up an entirely new application and permitting process, the Office of Cannabis expects that application processing time will decrease in the future. (Page 31)</p> <ul style="list-style-type: none"> <li>▪ As the first group to apply, equity applicants are disproportionately bearing the cost of the city's development of its system and processes. In the future, non-equity applicants will benefit from a more efficient application process.</li> </ul> <p><b>Recommendation 2.D:</b> The Board of Supervisors, Mayor, and departments should consider creating a priority permitting lane or expedited processing for equity applicants in departments other than the Office of Cannabis, including but not limited to: Planning, Police, and Building Inspection. (See also Recommendation 3.D)</p> <p><i>See Equity Chapter (page 49) for details on what some other peer cities offer equity applicants.</i></p> <p><b>Recommendation 2.E:</b> The Board of Supervisors and Mayor should consider providing additional benefits to equity applicants to help them through the lengthy permitting process, including capital and technical assistance (e.g., a loan program, permit navigation).</p> <p><i>See Equity Chapter (page 49) for details on what some other peer cities offer equity applicants.</i></p>

Topic	Finding
Other Applicants	<p><b>2.16</b> San Francisco ordinance requires that 50% of the operators in each activity (such as retail, manufacturing, or cultivation) must be equity-owned operators before general applicants can apply. For some activity types, there are not currently enough equity applicants to reach 50% equity representation, barring general applicants from participation. (Page 31)</p>
	<p><b>2.17</b> The priority processing tiers after equity applicants (equity incubators and previously-existing non-conforming operators) cannot have their applications processed until after the equity applicant pool is complete, which is likely over a year away. (Page 33)</p> <ul style="list-style-type: none"> <li>Due to the length of this wait, the value of second-priority processing status associated with being an incubator is reduced.</li> <li>Due to the length of this wait, any previously-existing non-conforming operators may have likely moved on to other businesses or may have resumed operating in the illicit market.</li> </ul>
	<p><b>2.18</b> As mentioned in Finding 2.13, equity applicants need capital to cover costs associated with waiting for application processing. As mentioned in Finding 2.14, the value of equity incubator status has been reduced due to lengthy processing times. These two factors have created a situation in which it is more profitable for large investors and multi-state cannabis companies to purchase ownership share in equity applicant businesses rather than incubate equity applicants. (Page 30)</p> <ul style="list-style-type: none"> <li>This is currently the primary mechanism that large investors and companies are entering the San Francisco cannabis market.</li> </ul>
Office of Cannabis	<p><b>2.19</b> The Office of Cannabis has a broad set of responsibilities in a highly-dynamic regulatory landscape and has had limited staff with which to execute its responsibilities. (Page 34)</p>
	<p><b>2.20</b> Due to limited staff resources, the Office of Cannabis has been unable to quickly process applications for cannabis business permits, which has led to significant wait times for applicants and potentially undermined the goals of the Equity Program.</p>
	<p><b>2.21</b> The Office of Cannabis will be revenue-generating in the long term but is unable to generate revenue while it has a backlog of equity applicants. (Page 35)</p>
<p><b>Recommendation 2.F:</b> In order to reach revenue-generation faster, the Office of Cannabis should consider temporary positions to reduce the backlog of equity applicants and expedite application processing.</p>	

## 3. Equity

San Francisco’s adult-use cannabis legalization ordinance contains equity goals that are central to its regulatory framework. The ordinance states its intent for equity:

The Board of Supervisors is committed to ensuring that the perspectives of communities that have been historically and disproportionately affected by federal drug enforcement policies are included and considered in all cannabis policy decisions.

The Board of Supervisors is committed to fostering equitable access to participation in the cannabis industry for San Francisco-based small businesses and individuals by promoting ownership and stable employment opportunities in the industry.

Through this Article 16, the Board of Supervisors intends to develop a regulatory framework that...creates equitable access to opportunities within the cannabis industry; and creates jobs and tax revenue for the City. (Ordinance 230-17, §1600)

Since legalization, there have been some significant equity-related accomplishments related to cannabis—notably with respect to community benefit agreements and criminal record expungements. There have been mixed results, however, when it comes to the equity intent behind the regulatory framework as discussed in Chapter 2, Regulation (page 15) and continuing disproportionate enforcement as described in Chapter 5, Public Safety (page 66).

### THE CASE FOR EQUITY

In November 2017, the Office of Cannabis, Human Rights Commission, and Controller’s Office jointly produced a Cannabis Equity Report, which was filed with the Board of Supervisors. The report details the history of drug enforcement in the United States and California, and particularly its role as a tool to marginalize communities of color. The report states that “For decades, the War on Drugs has had consequential impacts on communities of color in San Francisco. The impacts of this disproportionality are acutely felt today: poverty, education gaps, and criminal records are the vestiges of explicitly and implicitly racist drug enforcement policies.”<sup>35</sup>

The report found that arrest rates for cannabis offenses in San Francisco were, and continue to be, disproportionately skewed towards individuals who are Black, even as the city decriminalized cannabis and arrested fewer people for cannabis offenses: “[A]s the number of total arrests drastically falls around 2011, after the downgrading of misdemeanor cannabis possession to an infraction, Black cannabis arrests as a percentage of total arrests hovers around 50%... [while] Black people only represented 6% of San Francisco’s population in 2010.” As discussed in Chapter 5, Public Safety (page 66), this disproportionality continues today.

The report made clear the need for a cannabis equity program to benefit communities who had been disproportionately impacted by decades of criminal drug enforcement. Without an equity program, the

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<sup>35</sup> City and County of San Francisco. “Cannabis Equity Report”. San Francisco Board of Supervisors File Number 171042. <https://sfgov.legistar.com/View.ashx?M=F&ID=5533484&GUID=DBB17596-3BCB-44D9-A3DF-6ECA247E9A16>



very communities who had disproportionately suffered the consequences of criminal drug enforcement for cannabis might be unable to participate in the newly-legalized market due to legal or capital barriers. Many cities in California recognized this imperative and established equity programs, including Oakland, Los Angeles, Sacramento, Long Beach, and San Francisco, among others.

## SAN FRANCISCO'S EQUITY PROGRAM

San Francisco's Cannabis Equity Program has three main components, as shown below:

- **Equity Applicant Program.** Equity applicants must meet certain criteria in order to qualify for the Equity Program, as described in Chapter 2, Regulation (page 23). The primary benefit of being an equity applicant is having priority for cannabis business permits: other than existing operators, no new entrants are allowed to establish cannabis businesses before equity application are processed.
  - **Benefits:** first priority in application processing, initial application and permit fee waivers, assistance from the Office of Cannabis finding incubators and technical assistance.
- **Equity Incubator Program.** Businesses that commit to support equity applicants with rent-free space or technical assistance for at least three years can become equity incubators.
  - **Benefits:** second priority in application processing (following equity applicants). Currently, equity incubator permit applications are not being processed because the Office of Cannabis is still processing equity applications. This process is described in more detail in Chapter 2, Regulation (page 28).
- **MCD Equity Plans.** Medical cannabis dispensaries (MCDs) are operators that primarily existed before legalization. Currently, MCDs comprise all of San Francisco's storefront retailers and some delivery-only retailers. In order to receive authorization to sell adult-use cannabis, MCDs must create an equity plan and comply with it. Many equity plans commit to hiring equity-qualified employees,<sup>36</sup> purchasing products from equity-owned businesses,<sup>37</sup> holding technical assistance events, and donating to local equity-supporting non-profits.
  - **Benefits:** MCDs with equity plans can receive authorization to sell adult-use cannabis, as opposed to being restricted to medical-use only.

As more fully discussed in Chapter 2, Regulation (page 30), the lengthy processing time associated with receiving a cannabis business permit has significantly reduced the potential benefit of priority processing to equity applicants and equity incubators. As yet, there have been no permanent cannabis permits fully approved by the Office of Cannabis. While some applicants are nearing the end of the process (11 are currently building out their business location), many more are waiting on application approval while they incur the cost of holding their business location (111 applications are actively in the queue).

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<sup>36</sup> An "equity-qualified employee" is an individual who meets the equity criteria specified by the city's cannabis Equity Program but may or may not have actually applied to be an equity applicant.

<sup>37</sup> Equity-owned businesses include future operators who will be permitted as part of the Equity Program, but also current operators who meet the equity criteria specified by the Equity Program but may or may not have actually applied to be an equity applicant.

## Equity Applicants

As of August 15, 2019, there are 298 individuals who have been verified as equity applicants per the criteria set forth in the city's Equity Program. The Office of Cannabis has received 183 applications for Cannabis Business Permits from equity applicants, but none have yet received final approval for operation (although a few hope to open within the next two months).<sup>38</sup> For more details on equity applicants, see Chapter 2, Regulation (page 23).

While equity applicants wait for their cannabis business permit applications to be approved, they generally must hold onto their proposed business location. For some, this means paying rent on a location that is not yet generating revenue. To cover these costs, some applicants are incurring personal debt and/or selling ownership shares to investors to fund the business while they wait on permit approval. As it currently stands, **due to long permitting timelines the city is in danger of further disadvantaging equity applicants that were specifically targeted due to their disadvantaged status.** This process is more fully described in Chapter 2, Regulation (page 30).

San Francisco does not provide direct capital assistance to equity applicants, other than application and permit fee waivers. Given the current wait time for equity applications (for the average applicant, 18 to 24 months from submission to final approval), the businesses most likely to survive to market will be from the more well-resourced applicants, including businesses that sold partial ownership to investors. Applications from individuals such as sole proprietors with little outside investment will be less likely to survive to market due to the capital needed.

Applicants with the least resources are also the most likely to be unable to afford specialized legal, regulatory, or technical assistance (e.g., compliance experts, permit expeditors), and may be unfamiliar with the city's complex business approvals process. Without special assistance or knowledge, these applications may have difficulty navigating the city's bureaucracy, further slowing down their processing time and endangering their prospects for approval.<sup>39</sup> While nothing in the application process explicitly favors more well-resourced candidates, the duration of the process will favor applicants who have greater access to capital, capital networks, and/or willingness to take on investors.

While the Office of Cannabis works down its backlog of applications, equity applicants must bear the cost of slow and complex city permitting structure. Without additional assistance for applicants or increased resources dedicated to reducing wait time, the city may not achieve its goals for the Equity Program and may, in fact, undermine them by favoring more well-resourced applicants.

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<sup>38</sup> A small number of equity applicants are also existing operators: there are three operators with Temporary Permits and one operator with an MCD.

<sup>39</sup> The Office of Cannabis has partnered with The Bar Association of San Francisco to provide legal assistance to equity applicants to help them navigate business establishment and permit processing issues. These attorneys cannot represent the applicants but can provide legal advice.

This sentiment was echoed in interviews with current equity program applicants. In the words of one applicant, the Equity Program “was pitched as a head start on the industry,” but “a whole year later there are no permits.” Combined with the fact that equity applicants will have to compete with existing industry (MCDs and Temporary Permittees) who are already generating revenue, this applicant questioned if the city is really coming through on the promise of a pathway to profitable operation.

**“The Equity Program was pitched as a head start on the industry...a whole year later, there are no permits.”**

– Equity program applicant

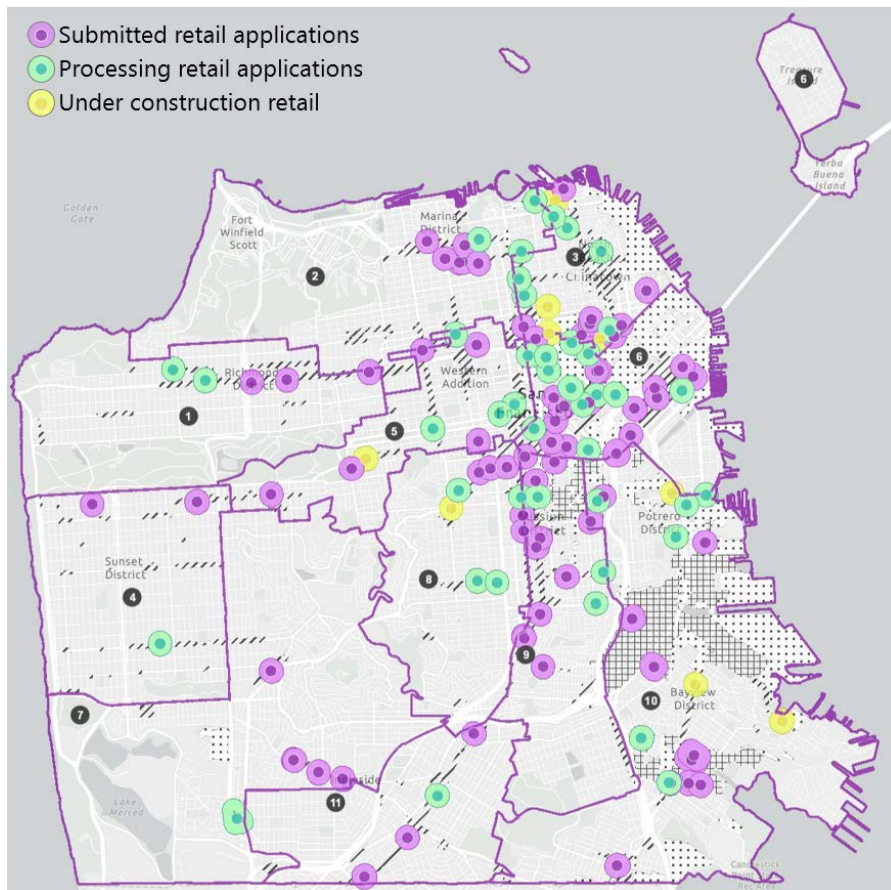
The questionable value of this pathway might be particularly true for equity applicants applying for storefront retail. As of August 15, 2019, out of 183 applications in the queue, 133 applications (73%) express an intent to establish storefront retail.<sup>40</sup> Retail must locate in appropriate zoning districts and not within 600 feet of another cannabis storefront or a school, making suitable locations difficult to find and expensive, particularly in the areas where there is a high density of existing retailers such as the northern Mission District, Civic Center, and Embarcadero corridor (see Chapter 2, Regulation, Figure 2.6). Existing storefront retail industry combined with the high number of storefront retail applications in queue may mean that equity applicants are striving to reach a saturated market that will not sustain their business. Figure 3.1 shows the proposed locations for retail storefront businesses among current equity applicants.

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<sup>40</sup> Out of 183 equity program applications in queue with the Office of Cannabis, 133 indicate storefront retail as an intended activity. Applicants can specify more than one activity per application. 110 applications express storefront retail as their only intended activity.

### Figure 3.1 Retail Storefront Locations of Proposed Equity Business (currently in queue)

Out of 183 applications from equity applicants, 133 are applying for storefront retail. The proposed locations are heavily concentrated in Civic Center, Union Square, the Mission District, and South of Market.



While it is difficult to predict how many retail locations the local economy can sustain, there is a saturation point at which there are not sufficient consumers to support the number of businesses. As discussed in Chapter 4, Economy (page 57), there is evidence that average revenue per existing retail location is already decreasing, before any of the proposed locations shown in Figure 3.1 above have begun to operate. **Given the number of storefronts currently in queue, it is likely that some, if not many of these proposed locations will not be viable due to high competition between many operators.** This may be particularly acute in areas where there are high concentrations of existing retailers and proposed locations, such as Civic Center and the Mission District.

Equity applicants who are taking on debt in order to open a storefront retail location may end up worse off than they started because there is simply not enough demand to build a profitable business. Moreover, equity applicants will be starting out at a disadvantage compared to existing retailers who have had the benefit of already operating.

The Board of Supervisors and Mayor should consider their options with how to handle this upcoming influx of proposed retail locations. **Numeric caps or geographic limits will bar equity applicants currently in the application queue from the market. This would disadvantage applicants who have already invested money into their business during the permitting process and would disproportionately impact equity applicants** compared to the existing cannabis market. Maintaining

the current permitting framework and timelines, however, exposes equity applicants to potentially expending more resources towards an unviable business. Instead of a hard cap, the city should consider other options to help equity applicants with storefront retail applications. This could include a moratorium on *new* storefront retail applications, offering incentives to applicants to change their proposed business from retail to other supply-chain activities, and offering incentives and technical assistance for equity applicants to merge businesses so as to reduce the number of existing retail storefronts applications. Incentives offered to equity applicants could also be offered to equity incubators, who have provided resources to equity applicants but may also be pursuing unviable retail activities.

## Equity Incubators

As discussed in Chapter 2, Regulation (page 32), the long wait times associated with permitting have also impacted the equity incubator program. The equity incubator program was designed to provide a benefit to businesses or individuals who were willing to provide assistance to equity applicants. In exchange for providing rent-free space or technical assistance for three years, incubators would have their cannabis business permits processed immediately after the completion of the equity applicant category (second-priority in processing).<sup>41</sup> The Office of Cannabis provides potential incubators with a listing of equity applicants that are interested in incubation.

Due to the extended processing timeline for applications, however, having equity incubator status has not yet provided value to these applicants. Incubator applications cannot be processed until after all equity applications begin processing, which is likely over a year away. Any potential incubators would have to provide space or technical assistance at significant expense without a clear time horizon for when their permits will be approved. As a result, there are relatively few incubators (26 submitted permit applications) when compared to the number of equity applicants that could be incubated (183 submitted permit applications). This has severely limited the benefits of the incubator program to equity applicants who could utilize rent-free space or technical assistance offered by incubators. In the absence of city-provided capital or technical assistance, and few incubators participating in the program, equity applicants have limited options for acquiring the kinds of assistance that they need.

In addition, as discussed on page 33 in Chapter 2, Regulation, some well-financed companies, including large multi-state cannabis companies, have decided that instead of providing incubation, it makes better financial sense to instead purchase ownership in equity applicant's businesses. Had they incubated, these companies could own 100% of their business once it is permitted; but it will likely be at least two years before they are permitted. By purchasing ownership in an equity business, they can only own up to 60% of the equity business, but they can get to market sooner.<sup>42</sup> From the current equity incubator applicant queue, it appears that there are companies utilizing the latter strategy.

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<sup>41</sup> MCDs can also elect to become incubators in order to perform ownership changes that would otherwise not be permitted. MCDs must provide space or technical assistance for a period of 18 months.

<sup>42</sup> To qualify as an equity-applicant owned business, the equity applicant must own no less than 40% of the business entity.

## MCD Equity Plans

MCDs currently make up all of San Francisco’s storefront retail operators and some of the city’s delivery-only retailers. In order to receive a temporary authorization to sell adult-use cannabis, MCDs must create an equity plan that shows how their business will:

- Help and support Equity Operators
- Hire people hit hardest by the criminalization of cannabis
- Otherwise further the city’s equity goals

As of August 15, 2019, there are 41 MCDs with equity plans. Every 120 days, they must show how they have worked to further their equity plans by providing a progress report. By the discretion of the Office of Cannabis, if the MCD has not made a good-faith effort on their plan, they may have their adult-use authorization rescinded. All operating MCDs have their equity plans publicly posted on the Office of Cannabis website.<sup>43</sup>

Commonly-provided benefits include hiring equity-qualified employees, purchasing products from equity-owned businesses,<sup>44</sup> holding technical assistance events, and donating to local equity-supporting nonprofits. The city has leveraged private industry to provide a significant portion of community benefits as part of the Equity Program. MCD Equity Plans are one of the largest sources of direct community investment related to the cannabis industry in San Francisco, as there are 41 MCDs continuously investing in these plans.

## Additional Equity-Focused Initiatives

In addition to these efforts overseen by the Office of Cannabis, there have been some other equity-focused initiatives undertaken by the city.

### Criminal Records

Having a criminal record can bar individuals from certain types of employment and public benefits, so clearing these convictions can greatly benefit people who were victims of the War on Drugs. An important success since cannabis legalization has been the District Attorney’s Office proactive clearing of criminal history records for cannabis-related offenses.

When Proposition 64 went into effect, it allowed individuals who were convicted of certain types of marijuana-related crimes to have their criminal records cleared. However, the process required individuals to petition the court, which requires time, expertise, and potentially money for professional services.<sup>45</sup> Instead of relying on eligible individuals to navigate this process on their own, the San

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<sup>43</sup> At time of publication, there were three operators who had been recently permitted and not yet provided their equity plans. Equity plans can be viewed at <https://officeofcannabis.sfgov.org/equity/mcd-plans>.

<sup>44</sup> Equity-owned businesses include future operators who will be permitted as part of the Equity Program, but also current operators who meet the equity criteria specified by the Equity Program but may or may not have actually applied to be an equity applicant.

<sup>45</sup> This process was changed with the passage of AB 1793 (effective Jan. 1, 2019), which instructed the California Department of Justice to identify eligible cases and provide them to county district attorneys. If the county does not challenge the expungement, it will happen automatically.



Francisco District Attorney's Office worked with Code for America, a non-profit, to proactively identify eligible cases and petition the court to dismiss and seal the records on their behalf.

Reviewing cases back to 1975, the District Attorney's Office cleared 9,361 criminal charges from a total of 9,131 cases, as shown in Figure 3.2.

### Figure 3.2 Criminal Records Cleared by the District Attorney

The District Attorney's Office cleared 9,361 charges from a total of 9,131 cases (cases can have more than one charge).

Charge Level	Number of Charges Cleared
Infraction	55
Misdemeanor	3,705
Felony	5,594
Unknown	7
<b>Total</b>	<b>9,361</b>

Source: San Francisco District Attorney's Office

### Community Reinvestment Fund

In its legalization ordinance, San Francisco approved a Community Reinvestment Fund with the purpose of providing assistance to address the impact of "racially disproportionate arrests and incarceration, generational poverty, community degradation, housing insecurity, loss of educational and employment opportunities, disruption of family structures, and other burdens of the failed War on Drugs."<sup>46</sup> The fund was specifically intended for distribution to equity applicants and operators.

The Community Reinvestment Fund, however, has never been funded. **There is no plan to put money in the fund, and there have been no disbursements made from the fund.** As discussed in the next section, *Equity Programs in Peer Cities*, San Francisco is among the most risk-averse large cities with an equity program. It does not provide direct capital assistance to applicants and has been very cautious with providing any funding that could be interpreted as aiding in the sale of a federally-prohibited drug. This is in contrast to Oakland—which has allocated \$3.4 million dollars as direct loan funding to equity applicants.<sup>47</sup> This risk aversion is reflected in San Francisco's Community Reinvestment Fund, which was intended to provide assistance to equity applicants, but has instead gone unfunded due to concerns about the city's liability.

Some currently existing operators have expressed interest in donating to the fund as part of their community benefit agreements, but the Office of Cannabis has been advised by the City Attorney's Office not to allow this to avoid the appearance of self-dealing. There are currently no other planned sources of investment in to the fund.

<sup>46</sup> SF Administrative Code, Section 10.100-162.

<sup>47</sup> "Oakland Drags its Feet in helping Equity Pot." SF Chronicle, 6/4/18.

<https://www.sfchronicle.com/news/article/Oakland-drags-its-feet-in-helping-equity-pot-12963321.php>

Even if funded, there may be some legislative barriers related to disbursing the fund in ways that would most benefit equity applicants. As currently written, the ordinance authorizes the use of the fund for:

- (1) Workforce development;
  - (2) Access to affordable commercial real estate;
  - (3) Access to investment financing;
  - (4) Access to legal services and business administration.
- (San Francisco Administrative Code, Ch. 10, Art. XIII, §10.100-162)

In previous versions of San Francisco’s legalization ordinance, however, the language was slightly different. Notably, a previous version of the legislation allowed the use of the fund for “financing capital improvement, construction, renovations, and leasehold improvements.”<sup>48</sup> This original language would imply intent for a program similar to Oakland, where zero-interest loans are offered to qualified applicants. Without this explicit language, however, it appears that direct “financing” of an equity applicant might not be allowable as the legislation is currently written. Legislative modifications may be necessary in order to provide direct capital assistance like some other peer California cities.

### California Equity Grant

At the state level, the California Cannabis Equity Act of 2018 appropriated \$10 million to the California Bureau of Cannabis Control for grants to be distributed to local jurisdictions with equity programming. The San Francisco Office of Cannabis hosted listening sessions with equity applicants to determine how best this funding could be utilized. The office submitted a grant application requesting \$5.1 million for various equity programs in the city. The proposed programming includes various types of legal, regulatory, and business development assistance, workforce development, and funding to help equity applicants pay for inspection fees and state licensing fees. If approved, funds are set to distribute no later than June 30, 2020.

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<sup>48</sup> Ordinance 230-17



## EQUITY PROGRAMS IN PEER CITIES

Some other California cities have implemented equity programs as part of their cannabis regulatory frameworks, but each city's program is different. Figure 3.3 provides a brief qualitative review of four other California cities with equity programs.

### Figure 3.3 Equity Programs in Peer Cities

Like San Francisco, other California cities provide priority processing. Unlike San Francisco, other cities also provide direct capital and technical assistance.

City	Permitting Structure	Benefits
<b>Oakland</b>	Equity applicants must be Oakland residents, fall below an income threshold, and either lived in a high-enforcement police beat or been convicted of a cannabis crime.	Oakland's permitting structure requires that one equity applicant be permitted for each general applicant permitted. Equity applicants are eligible for fee waivers, zero-interest loans (ranging from \$5,000 to \$100,000), and technical assistance with starting their business. Oakland has approved at least 25 equity businesses to operate.
<b>Sacramento</b>	There are tiers of equity applicants eligible for various benefits. Qualification criteria include having lived in a zip code with disproportionate cannabis enforcement, falling below certain income thresholds, or being a woman- or veteran-owned business. Sacramento allows all operators to apply for permits and does not restrict applications to only equity applicants but does prioritize them.	Equity applicants are eligible for fee waivers, priority planning approvals, priority permit approvals, and technical assistance with starting their business.
<b>Los Angeles</b>	There are tiers of equity applicants eligible for various benefits. Qualification criteria include falling below certain income thresholds, being convicted of a cannabis crime, and having lived in certain disproportionately impacted areas.	Equity applicants are eligible for expedited processing, business licensing and compliance assistance, fee deferrals and potential access to special funding. A certain number of retail licenses will become available only to equity applicants. Los Angeles has verified approximately 1,000 equity applicants but not yet opened equity applicant permit processing.
<b>Long Beach</b>	Equity applicants must fall below an income and net worth threshold and also have one of the following three criteria: lived in a low-income census tract, been arrested for a cannabis-related crime, or be a current resident receiving unemployment benefits.	Equity applicants are eligible for application workshops (technical assistance), fee waivers, expedited application and plan check review, and cultivation tax deferrals (monthly payment plan rather than annual lump sum).

As shown in Figure 3.3, each of these programs has taken a slightly different approach towards its equity goals. Broadly, equity programs can be termed as providing (1) application processing assistance, such as expedited permitting or reserved quotas of permits, (2) capital assistance, such as loans or fee waivers, or (3) technical assistance, such as application assistance or business workshops. Comparing these programs to what San Francisco currently offers its equity applicants can be instructive as to what type of additional assistance might help equity applicants.

### Application Processing Assistance

Many cities offer expedited permitting. San Francisco offers a type of expedited permitting (exclusive permitting) but this extends only to the Office of Cannabis. While equity applicants are the top priority in that office, their applications have no special priority with any other city departments, such as Planning, Building Inspection, or Police that are involved in approvals needed to obtain a cannabis permit. Sacramento, for example, offers expedited approval of the Conditional Use Permit from the Planning Department. In contrast, cannabis businesses are specifically exempt from San Francisco's Community Business Priority Processing Program (CB3P), which streamlines conditional use permitting in the Planning Department.

The city is at a critical moment when it comes to equity applicants, who may be incurring personal debt and/or diluting their business ownership (see Chapter 2, Regulation, page 33) while they wait for their application to receive approval from multiple city entities. In order to avoid further disadvantage these applicants, the city should consider how it can prioritize these applications in each approving department to expedite the process.

### Capital Assistance

In addition to processing assistance, other cities provide capital assistance to equity applicants. Oakland, for example, provides applicants with access to a zero-interest loan program administered by a city contractor. Other than providing waivers for application and permit fees, San Francisco does not offer any capital assistance to equity applicants. Given equity applicant's need for capital to hold space while they wait for application processing and the inability to get traditional loans through banks, this type of program might be particularly beneficial in order to avoid higher-interest loans or selling ownership shares.

As discussed in *Community Reinvestment Fund* section above, the Office of Cannabis has been advised not to provide financial assistance to applicants that could be interpreted as aiding in the sale of cannabis (a federally prohibited drug). In comparison to its peers, San Francisco is the most risk-averse city; especially when compared to Oakland, which provides direct capital assistance in the form of loans. For at least some cannabis operators, this stance has caused some concern, with one applicant **concerned that the city might not stand behind its operators** if there was some kind of federal enforcement.

### Technical Assistance

Technical assistance can also be critical in helping new entrepreneurs establish their business and navigate complex permitting frameworks. There are two primary programs for equity applicants to get technical assistance as part of San Francisco's Cannabis Equity Program:

- The **Office of Economic and Workforce Development** allocates resources to nonprofit and for-profit organizations for legal representation to qualifying cannabis equity clients. This legal representation helps cannabis entrepreneurs in the pre-launch phase to assess business feasibility and understand and mitigate regulatory compliance risks.

- The Office of Cannabis has partnered with **The Bar Association of San Francisco** to provide pro bono legal assistance to equity applicants. This assistance is intended to lower barriers to entry by helping equity applicants navigate the regulatory process and create business agreements for their business.

These efforts are similar to programs in Oakland and Sacramento, where the city has contracted with local non-profits to provide technical assistance, such as application preparation or business development resources.<sup>49</sup>

In interviews with equity applicants in San Francisco, they expressed a desire for additional city-sanctioned programming that provides technical assistance. They also expressed a desire for an official forum or group of cannabis operators, with the city as a participant. In the absence of such a program, multiple peer groups have formed for equity applicants to share knowledge. Given that the city has no official position in these groups, however, some applicants have expressed confusion about who or what is the most “trustworthy” source.

## INSIGHTS FROM EQUITY APPLICANTS

As part of the research for this chapter, the Controller’s Office interviewed a sample of equity applicants who intend to establish businesses in different activities. This is by no means a representative sample, as only a small number of applicants were interviewed; however, their experience is important to consider as this group is who the Equity Program is intended to benefit. Overall, applicants expressed appreciation that the Equity Program had been opened to them, but frustration at the continuing capital, real estate, and regulatory barriers they faced.

Where possible, applicants are quoted directly, although paraphrasing is used where necessary to contextualize the subject matter. Applicants are quoted anonymously.

- **Benefit of the Equity Program.** “Without [the Equity Program] I never would have become a business. **I would never have been able to have the opportunity** to build my own business.”
- **Difficulty as an equity applicant and early entrant.** “This is the hardest market to break into from every perspective: money, real estate, regulations, everything. **And the people you are asking to do it are the hardest pressed.**”
- **Operating Space.** “Landlords are a big obstacle...[they] are concerned about their property being seized...because they are a trafficking location.” They are also concerned about FDIC-backed loans if they have a mortgage. “What can the city offer them to help us get locations [where we can operate].” Could “a landlord get some kind of benefit” for renting to cannabis operators?
- **Incubators.** “[Equity Applicants] need to be aware of incubators being exploitative. I want the city to incubate [operators]. We need a place to be incubated, work together, help each other out.”
- **Financing and Real Estate.** The city needs to “help people with **financing and real estate—that’s all that matters to applicants.** What about a bank or credit union: once you pass into

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<sup>49</sup> For example, the Greater Sacramento Urban League lists the following business development resources through its Sac Green Equity Program: needs assessment, establishing a legal entity, business plan creation, city/state permitting and compliance, expungement, fiscal management, and tax planning, among others. <<https://sacgreenequity.com/services/>>

the Equity Program you get access to loans? They do that in other places, because regular banks won't help us out."

- **City's commitment to cannabis.** "Can the city demonstrate that they will protect us and stand behind the operators? Right now, lots of people are worried that the government will still come crack down on this stuff." This raises the price for everything, from financing to real estate.
- **The illicit market:**
  - "How [is the city] going to enforce the illicit market component of this? You need to recognize the illicit market and do something about it before the legal market can take hold."
  - "Draw the illicit market in by having an example of equity operators who are able to go legal." Right now, illegal operators see equity applicants waiting in the queue and have no interest in going legal. Illicit operators are benefitting from fewer legal operators, while there is little enforcement against the illicit market. Why would they want to go legal? **"The street dealers need to see: yes, it does take time, but then you get a legally operating business that can make real money."**

## KEY FINDINGS AND RECOMMENDATIONS

Topic	Finding
Equity Program	<b>3.1</b> San Francisco's Equity Program is intended to address some of the negative consequences of disproportionate drug enforcement by benefitting individuals who were disproportionately impacted by the War on Drugs. (Page 40)
	<b>3.2</b> Equity Program applicants are eligible for this program due to existing resource disadvantages, yet they face a lengthy application approval timeline during which they may be expending resources to hold a business location. (Page 42)
	<b>3.3</b> Equity applicants who do not receive external financial backing are the least likely to be able to float their business location costs through the lengthy application process. Applicants that have financial backing from investors or other cannabis companies will be more likely to survive to market. (Page 42)
	<b>3.4</b> San Francisco's Equity Program was pitched as a pathway into the industry for equity applicants, but due to existing operators and a lengthy permitting timeline, the value of priority processing is questionable. (Page 43)
	<b>3.5</b> Due to zoning regulations, buffer zones around schools and other cannabis storefronts, and already-existing MCDs, equity-owned retail storefront applications have limited viable locations. (Page 43)
	<b>3.6</b> Due to the high number of equity applicants in queue applying for storefront retail, in addition to existing storefront retailers, market saturation in storefront retail is possible. This would result in equity applicants investing in businesses for which there is no viable market. (Page 44)
	<b>3.7</b> Limits to cannabis business permits based on numeric caps or geographic limits would disproportionately impact equity applicants in queue who have already expended resources while waiting for their permit.
<b>Recommendation 3.A:</b> The Board of Supervisors and Mayor should consider methods to reduce the number of storefront retail applications in queue, such as a moratorium on new storefront retail applications and/or incentives to change pending storefront retail applications to other business activities. Incentives offered to equity applicants could also be offered to equity incubators. (See also Recommendation 2.C in Regulatory chapter)	
<b>Recommendation 3.B:</b> Numeric or geographic limits to cannabis business permits should apply to new applicants rather than to the existing applicant pipeline.	
Additional Equity Initiatives	<b>3.8</b> Likely as a result of the significant expense of incubating and unclear time horizon for the approval of an incubator's application, there are relatively few equity incubators (26 submitted applications) compared to the number equity applicants that could be incubated (183 submitted applications). (Page 45)
	<b>3.9</b> Some well-financed companies, including large multi-state cannabis companies, have purchased ownership in equity applicant businesses instead of becoming equity incubators. (Page 45)
	<b>3.10</b> There are 41 existing MCDs with equity plans that require them to provide community benefits. This is one of the largest sources of direct community investment provided as part of the city's Equity Program. (Page 46)

Topic	Finding
<b>Community Reinvestment Fund</b>	<b>3.11</b> The San Francisco District Attorney's Office has cleared 9,361 cannabis-related criminal charges dating back to 1975. (Page 47)
	<b>3.12</b> The Community Reinvestment Fund established by San Francisco's cannabis legalization ordinance has never been funded and has no current viable method to become funded. (Page 47)
	<b>3.13</b> The current legislative language concerning the use of the Community Reinvestment Fund may bar its use for direct capital assistance to equity applicants. (Page 47)
<b>Recommendation 3.C:</b> The Board of Supervisors, Mayor, and City Attorney's Office should consider methods to fund the Community Reinvestment Fund. Further, they should consider possible legislative or policy modifications that would allow the Fund to be used for capital and technical assistance to equity applicants.	
<b>Expedited Permit Review</b>	<b>3.14</b> Outside of the Office of Cannabis, equity applicants receive no special priority or expedited processing in other city departments. (Page 50)
	<b>3.15</b> Some peer cities provide expedited permit processing for equity applicants in departments outside of their cannabis permitting agency, such as expedited review by the Planning Department. (Page 50)
<b>Recommendation 3.D:</b> The Board of Supervisors, Mayor, and departments should consider recommending a priority permitting lane or expedited processing for equity applicants in departments other than the Office of Cannabis, including but not limited to: Planning, Police, and Building Inspection. (See also Recommendation 2.D in the Regulatory chapter.)	
<b>Capital Assistance</b>	<b>3.16</b> Other than application and permit fee waivers, San Francisco does not provide direct capital assistance to equity applicants. (Page 50)
	<b>3.17</b> Some peer cities provide capital assistance to equity applicants, such as access to no-interest loans. (Page 50)
<b>Recommendation 3.E:</b> The Board of Supervisors, Mayor, and City Attorney's Office should consider utilizing the Community Reinvestment Fund to provide capital assistance to equity applicants, including no-interest loan funding or banking options.	
<b>Technical Assistance</b>	<b>3.18</b> Equity Program applicants are offered technical assistance provided through programs with the Office of Economic and Workforce Development and the Bar Association of San Francisco. (Page 50)
<b>Recommendation 3.F:</b> The Board of Supervisors, Mayor, and City Attorney's Office should consider utilizing the Community Reinvestment Fund to fund contractors to provide additional technical assistance to equity applicants.	

## 4. Economy

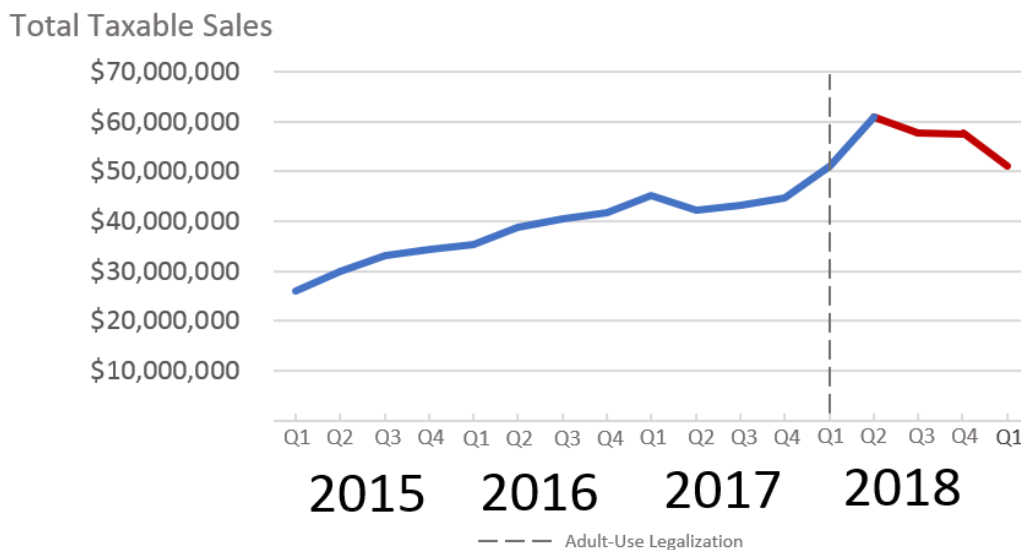
To understand potential cannabis industry economic concerns as a possible input to a recommendation on limits to cannabis business permits, this chapter analyzes the change in cannabis retail sales, average sales per operator, retail prices, and job growth since adult-use cannabis was legalized in January 2018.

### INDUSTRY GROWTH

#### Cannabis Retail Sales

The positive or negative growth in the cannabis industry can be reflected by cannabis retail sales. The Controller's Office reviewed San Francisco cannabis retail sales tax data from January 2015 through March 2019<sup>50</sup> and determined that **the industry has increased sales steadily year-over-year until the second quarter of 2018, when it decreased by 16%** (Figure 4.1).<sup>51</sup> In 2015, retail cannabis operators in San Francisco had taxable sales over \$123 million dollars, and this increased annually to \$228 million through 2018, an increase of 85%.

**Figure 4.1 Total Taxable Cannabis Sales in San Francisco (2015-Q1 to 2019-Q1)**



Source: San Francisco sales tax data, Controller's Office Budget and Analysis Division

<sup>50</sup> Calendar years, unless otherwise noted.

<sup>51</sup> 2019 Q2 sales tax data was provided after this chapter was developed and shows an increase of 21% from 2019 Q1.

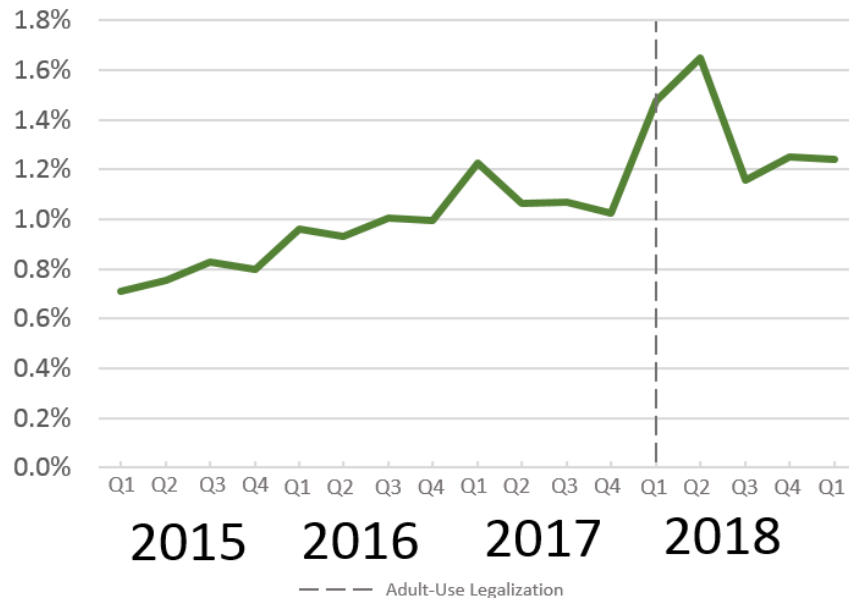
The increase between 2015 to 2018 can be attributed to a growing demand for legalized cannabis and an increase in legal operators from 20 in 2015 to 64 in 2018.<sup>52</sup> **However, San Francisco cannabis taxable sales decreased from \$61 million in Q2 2018 to \$51 million in Q1 2019, a reduction of 16% for nine months.**

By comparison, retail sales in the liquor industry in San Francisco between 2015 and 2018 remained stable with less than a one percent increase. The liquor industry, however, brings in a substantially greater amount of revenue, averaging \$1.27 billion dollars annually.<sup>53</sup>

As illustrated in Figure 4.2 below, the legal cannabis market makes up 1.2% of all taxable sales in San Francisco, a 75% increase since 2015.

**Figure 4.2 Cannabis Taxable Sales as Percentage of All San Francisco Taxable Sales**

Cannabis % of All SF



Source: San Francisco sales tax data, Controller's Office Budget and Analysis Division

The state of California sold over \$3 billion in legal cannabis in 2017.<sup>54</sup> In 2018, when the state legalized adult-use cannabis, \$500 million less in sales were reported, or a 17% drop comparably. **San Francisco accounts for nine percent of California's cannabis market in 2018.**<sup>55</sup>

<sup>52</sup> In 2015, there were 20 medical cannabis dispensaries (MCDs). In 2018, there were 32 MCDs, 20 MCD delivery operations, and 12 temporarily permitted adult-use cannabis delivery.

<sup>53</sup> The liquor industry is defined by the North American Industry Classification System (NAICS), and the data is obtained from the San Francisco Controller's Office, Budget and Analysis Division from sales tax records

<sup>54</sup> "Buying Legal Weed in California." NY Times, 1/2/19. <https://www.nytimes.com/2019/01/02/us/buying-legal-weed-in-california.html>

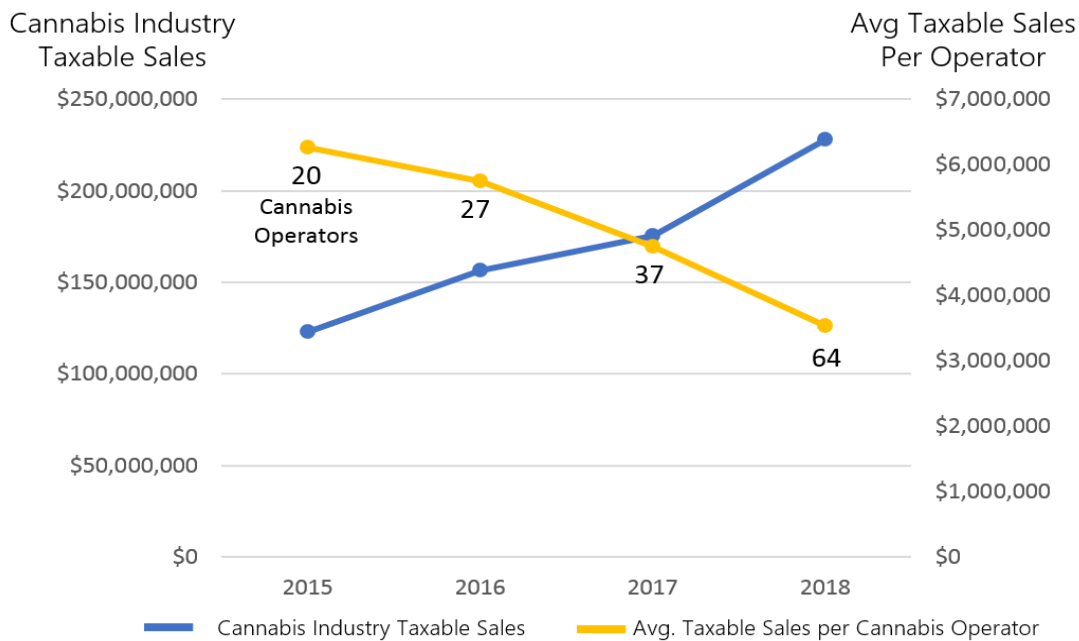
<sup>55</sup> "2018 California Cannabis Marketplace in Review." BDS Analytics, 2/18/19. <https://bdsanalytics.com/the-2018-california-cannabis-marketplace-in-review/>



During this same timeframe, the total number of cannabis retailers (storefront and delivery) in San Francisco increased from 20 in 2015 to 64 in 2018,<sup>56</sup> decreasing the average revenue earned per cannabis retailer (see Figure 4.3). **In 2015, the average cannabis retail operator had sales of \$6.3 million, but by 2018, given the 44 new retail operators in the market, those sales decreased by 44% or to an average of \$3.5 million.**

**Figure 4.3 Total Cannabis Retail Taxable Sales vs Average Taxable Sales per Operator in San Francisco (2015-2018)**

The average cannabis retailer is earning 44% less in 2018 than 2015.



Source: San Francisco sales tax data, Controller's Office Budget and Analysis Division

Since legalization of adult-use cannabis in January 2018, 179 new retail equity permit applications have been submitted for review to the Office of Cannabis.<sup>57</sup> Assuming consistent demand to 2018, the average annual revenue will decrease notably as new equity cannabis retailers become permitted. In addition, in Q1 of 2019, **the San Francisco cannabis industry recorded a drop in taxable sales for the third quarter in a row, a total decrease of 16%,** so retailers would see decreasing sales, unless demand increased significantly.

In Colorado, where a legal adult-use cannabis market has existed since 2014, the average price of wholesale cannabis decreased from a high of \$2,007 per pound in 2015 to a low of \$781 per pound as of January 2019.<sup>58</sup> While it is impossible to predict the future demand for and price of cannabis in

<sup>56</sup> As of August 1, 2019, there were 78 retailers (including both storefront and delivery only). It is difficult to track exactly how many of these retailers are currently operating, but as of August 15, 2019, 35 retail storefronts were in operation out of 37 permitted.

<sup>57</sup> Not all new retail permit applications will be approved by the Office of Cannabis. There are zoning restrictions, proximity limits, and other regulations that would not allow for all 179 to be approved.

<sup>58</sup> "Taxing Cannabis." Institute on Taxation and Economic Policy, 1/23/19. <https://itep.org/taxing-cannabis/>

California, Colorado could be an example of decreasing prices as more retail operators enter a legalized market.

## Comparing Retail and Supply-Chain Operators

Sales growth is not equal across cannabis retail and supply-chain operations in San Francisco.<sup>59</sup> Retail includes medicinal cannabis, adult-use and medicinal, and delivery only operators;<sup>60</sup> supply includes cultivators, distributors, manufacturers (volatile or non-volatile), and testing laboratories. **Between 2017 and 2018, cannabis retail sales increased by 38%; however, cannabis supply sales increased by only 7%.**<sup>61</sup> Inversely, average payroll costs increased more sharply for supply operators (+57%) than for retail operators (+18%), indicating that increases in salary costs are outpacing the revenue growth for supply while retail locations in San Francisco are becoming more productive.

**+38% Retail**  
**+7% Supply**

Percentage increase in revenue 2017 - 2018

Payroll costs as a percentage of total sales can indicate how productive a capital-intensive business or industry has become. If the industry is becoming more productive, labor costs will typically be a decreasing percentage of a business' sales. The Controller's Office reviewed data for those retailers that reported payroll and gross receipts figures in 2017 and 2018; these retail operators spent about 17% on payroll in both years. The non-cannabis retail industry standard is 12% with a range between 10% and 20%.<sup>62</sup> Although the cannabis retail industry is slightly higher, it is not atypical for the retail industry in general.

For cannabis suppliers, payroll costs increased from 10% to 16%. It is not immediately clear what is causing this increase, but **supply operators' payroll costs are growing faster than their sales.**

<sup>59</sup> Sales revenue is derived from San Francisco sales tax data for the cannabis industry.

<sup>60</sup> Not all retail and supply-chain cannabis locations submitted payroll and/or gross receipts tax information for both 2017 and 2018. As such, gross receipts data includes eight retail and eight supply-chain operators. Payroll data includes 10 retail and 15 supply-chain operators.

<sup>61</sup> 2019 Cannabis supply-specific sales tax data was not readily available. Source of San Francisco sales tax data is the San Francisco Controller's Office, Budget and Analysis Division.

<sup>62</sup> "Benchmark Breakdown: Key Metrics on 25 Industries." Forbes, 6/29/10. [https://www.forbes.com/2010/06/29/best-in-class-financial-metrics-entrepreneurs-finance-sageworks\\_slide.html#222b8a5fcaf0](https://www.forbes.com/2010/06/29/best-in-class-financial-metrics-entrepreneurs-finance-sageworks_slide.html#222b8a5fcaf0)

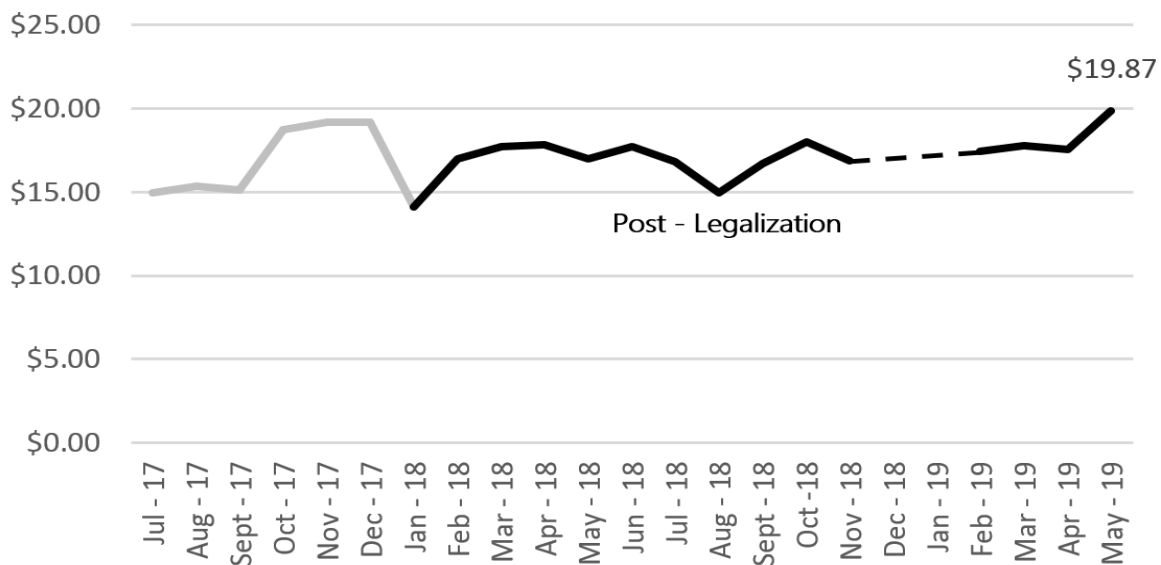
## Cannabis Prices

The average price in San Francisco for one gram of cannabis as of May of 2019 was \$19.87 (Figure 4.4), an increase from \$14.11 in January 2018, representing a 41% increase since adult-use cannabis was legalized. Across all unit amounts of cannabis sold, there has been a 12% increase in prices since legalization.

For a breakdown of the San Francisco cannabis industry's tax structure (i.e., state and local taxes) and comparison of cannabis taxes by city, please see Appendix E, Cannabis Tax Rates.

### Figure 4.4 Average Price Cannabis (One Gram)<sup>63</sup> in San Francisco

The San Francisco average price for cannabis has increased 41% since legalization.



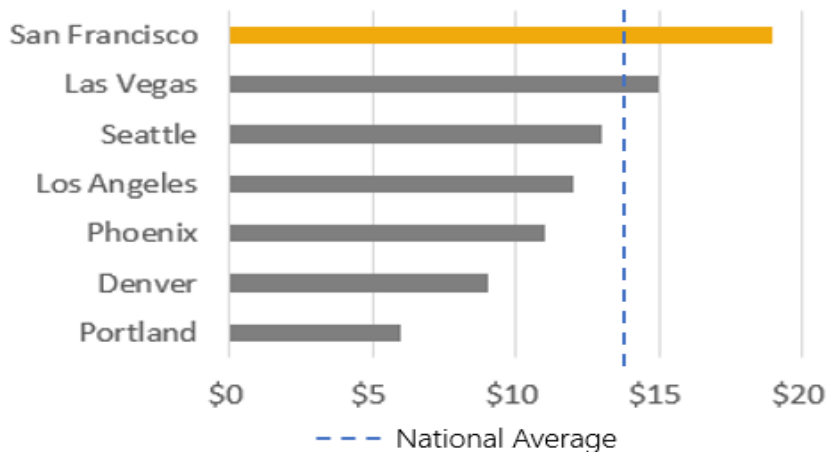
Note: An expanded table representing all available cannabis prices by weight in San Francisco is available in Appendix F, San Francisco Marijuana Pricing.

Source: [www.MarijuanaRates.com](http://www.MarijuanaRates.com)

<sup>63</sup> MarijuanaRates.com provided average cannabis prices for San Francisco. A few months of data are missing at the end of 2018 due to the organization's data errors. Marijuana Rates surveys retail locations in San Francisco and other cities around the United States each month in order to get average costs for medical and adult-use cannabis.

Comparing San Francisco to other major cities with adult-use cannabis, as shown below in Figure 4.5, **San Francisco has the highest average price at almost \$20/gram with the cheapest in Portland at \$6/gram.** The national average for one gram of cannabis was \$14 as of May 2019.

**Figure 4.5 Price Comparison by City (One Gram) as of May 2019**



Source: [www.MarijuanaRates.com](http://www.MarijuanaRates.com)

Increasing prices coinciding with decreasing sales could be a warning sign for this industry. It is possible that legal cannabis prices are increasing, not because demand is growing, but rather, because demand is falling, and operators need to maintain revenues. **Weaker sales and higher prices in San Francisco could also be attributed to the continued presence of the competing and less expensive illicit market.**

A 2019 audit, conducted by the United Cannabis Business Association, an industry trade organization, found approximately **2,835 unlicensed dispensaries and delivery services operating in California.** By comparison, only 873 cannabis sellers in the state are licensed, according to the Bureau of Cannabis Control.<sup>64</sup> This would mean that out of the total number of retail businesses, less than a quarter are licensed by the state.

The California Department of Food and Agriculture reported that close to 15.5 million pounds of cannabis is produced within the state per year.<sup>65</sup> However, only 2.5 million pounds remain legally in the

<sup>64</sup>“California Marijuana black Market Dwarfs Legal Pot Industry.” LA Times, 9/11/19.

<https://www.latimes.com/california/story/2019-09-11/california-marijuana-black-market-dwarfs-legal-pot-industry>

<sup>65</sup> “Economic Impact Analysis of CalCannabis Cultivation Licensing Program Regulations.” Dept. of Finance, California, 12/5/2017.

[http://www.dof.ca.gov/Forecasting/Economics/Major\\_Regulations/Major\\_Regulations\\_Table/documents/Cultivation\\_SRIA\\_CDFA\\_1-5-2018.pdf](http://www.dof.ca.gov/Forecasting/Economics/Major_Regulations/Major_Regulations_Table/documents/Cultivation_SRIA_CDFA_1-5-2018.pdf)

state, with 85% to 90% of all cannabis grown in California entering the illicit market either locally or in other US states.<sup>66</sup>

## Cannabis Jobs

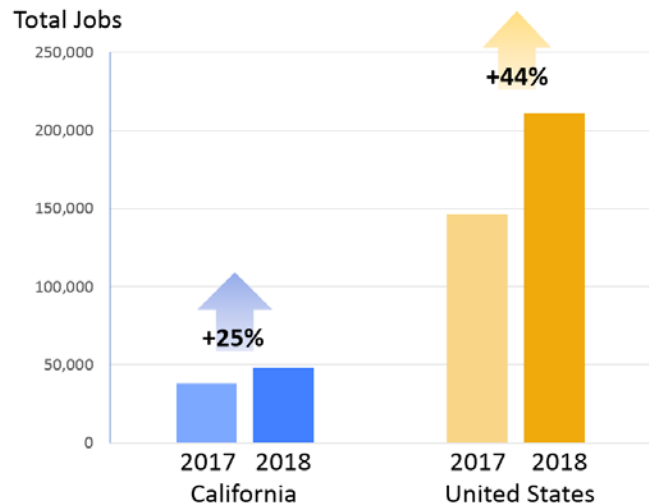
Nationwide, the legal cannabis industry has continued to increase full-time job numbers year-over-year, with approximately 211,000 people employed as of January 2019.<sup>67</sup> In 2018 alone, the national cannabis industry employment grew by 44% with the addition of 64,389 full-time positions (see Figure 4.6). Leafly, a cannabis industry trade organization, projects the national growth at 20% by the start of 2020.

In California, 47,822 people were employed in the legal cannabis industry at the end of 2018. This is a 25% increase from the end of 2017 at 38,233.<sup>68</sup>

The San Francisco adult-use cannabis legislation requires all cannabis operators to enter into an agreement with the Office of Economic and Workforce Development's (OEWD) First Source Hiring Program.<sup>69</sup> The First Source program requires employers to utilize good faith efforts toward employing economically-disadvantaged San Franciscan residents for entry-level positions. In 2018, 38 cannabis businesses submitted requests for entry-level positions to the First Source program. From these 38 businesses, **176 cannabis industry entry-level positions were offered to First Source participants, and 44 participants (25%) were hired.** The average starting wage for the 44 entry-level positions was \$17.32, which is 15% higher than the city's current minimum wage.<sup>70</sup>

**Figure 4.6 Cannabis Job Growth**

Cannabis jobs increased by 25% in California and by 44% in the United States between 2017 and 2018.



Source: Leafly.com

<sup>66</sup> "Buying Legal Weed in California." NY Times, 1/2/19. <https://www.nytimes.com/2019/01/02/us/buying-legal-weed-in-california.html>

<sup>67</sup> "Special Report: Cannabis Jobs Count." Leafly, 3/11/19. <https://d3atagt0rnqk7k.cloudfront.net/wp-content/uploads/2019/03/01141121/CANNABIS-JOBS-REPORT-FINAL-2.27.191.pdf>

<sup>68</sup> "Legal Marijuana Employs 200k People Across Country." Reno Gazette Journal, 4/20/18. <https://www.rgj.com/story/news/marijuana/2018/04/20/legal-marijuana-employs-200-000-people-across-country-heres-where-jobs/535542002/>

<sup>69</sup> San Francisco Police Code, Sec. 1618(g)

<sup>70</sup> Office of Economic and Workforce Development, First Source Hiring Program Data

**+15%**

Percentage higher than minimum wage offered to entry-level cannabis employees through First Source

As of September 2019, OEWD has been in the process of contracting with an economic research consultant to perform a San Francisco cannabis labor market analysis that will include a national and local industry impact analysis as well as local industry employment forecasting and employer surveys.<sup>71</sup> The surveys will highlight current local labor demands given market conditions, average wages at various occupation levels, and skill level requirements for these positions.

## KEY FINDINGS & RECOMMENDATIONS

Topic	Finding
<b>Cannabis Industry Growth</b>	<b>4.1</b> San Francisco cannabis taxable sales decreased from \$61 million in Q2 2018 to \$51 million in Q1 2019, a reduction of 16% in nine months. (Page 55)
	<b>4.2</b> San Francisco accounts for nine percent of California's cannabis market in 2018. (Page 56)
	<b>4.3</b> In 2015, the average cannabis retail operator had sales of \$6.3 million, but by 2018, given the 44 new retail operators in the market, those sales decreased by 45%, or to an average of \$3.4 million. (Page 57)
	<b>4.4</b> There are 179 new retail equity permit applications submitted for review to the Office of Cannabis. Assuming consistent demand to 2018, the average annual revenue will decrease notably as new equity cannabis retailers become permitted. (Page 57)
<b>Cannabis Prices</b>	<b>4.5</b> The average price for one gram of cannabis in San Francisco increased 41% to \$19.87 since adult-use cannabis was legalized. (Page 59)
	<b>4.6</b> San Francisco has the highest average price per gram of legal cannabis. (Page 60)
	<b>4.7</b> Weaker sales and higher prices in San Francisco could also be attributed to the continued presence of the competing illicit market. (Page 60)

**Recommendation 4.A:** The existing legal cannabis market will become increasingly competitive with the entry of equity applicants. The illicit cannabis market, by some estimates, is much larger than the legal market. The Board of Supervisors, Mayor, and departments should adopt strategies and investments, where required, to halt the illicit cannabis market.

<sup>71</sup> The Bureau of Labor Statistics and other employment data agencies do not track jobs related to the federally illegal cannabis industry. As such, there is currently no local cannabis job count data.

## 5. Public Safety

The adult-use cannabis legalization ordinance in San Francisco, effective as of January 2018, contains language that the city shall ensure the safety of customers, employees, and the public at large. To understand potential safety concerns related to the cannabis industry as a possible input to a recommendation on limits to cannabis permits, this chapter analyzes recent trends in cannabis-related crimes in San Francisco, the prevalence of crime within 600 feet of known legal cannabis businesses, California Highway Patrol records of driving under the influence of cannabis, and San Francisco 311 service request data.

For more detailed information of the Controller's Office methodology to analyze San Francisco Police Department (SFPD) crime incident data, see Appendix G, SFPD Data Analysis Methodology.

### CANNABIS LAWS

Since 1913, adult-use cannabis was prohibited in California until the state passed the Adult Use of Marijuana Act legalizing cannabis for those over 21 years old, in 2016. On the federal level, non-medicinal cannabis has been illegal since the Marijuana Tax Act of 1937.<sup>72</sup> California was the first state to pass legislation to allow medical cannabis in 1996, and since then, 21 US states have legalized medical cannabis, and 11 states have legalized cannabis for adult use.

#### Chronology of Key Legislation

- 1913 – California amends the Poison Act of 1907 to criminalize the sell or use of cannabis
- 1937 – Federal government prohibits cannabis excluding industrial and medicinal uses
- 1996 – California becomes first state to legalize medical cannabis
- 2006 – San Francisco deprioritizes cannabis crimes
- 2016 – California passes the Adult Use of Marijuana Act legalizing cannabis for those over 21 years old

In 2006, the San Francisco Board of Supervisors voted to make cannabis offenses the lowest law enforcement priority.<sup>73</sup> Since then, the arrest rate from police incidents involving cannabis has continued to drop year-over-year; arrest data is further discussed in the *Cannabis Arrests* section of this chapter.

<sup>72</sup> "Timeline Recreational Marijuana History." LA Times, 7/8/16. <https://www.latimes.com/politics/la-pol-ca-timeline-california-recreational-marijuana-history-20160708-snap-story.html>

<sup>73</sup> San Francisco Ordinance 297-06 [https://sfgov.org/sfc/mooc/Modules/Ordinance0297-06\\_09a0.pdf?documentid=417](https://sfgov.org/sfc/mooc/Modules/Ordinance0297-06_09a0.pdf?documentid=417)

## SAN FRANCISCO CANNABIS CRIMES

The Controller’s Office reviewed SFPD cannabis summary incident report data for all cannabis-related crimes between 2013 to 2018 in San Francisco.<sup>74</sup> An incident report includes information such as location, time, and type(s) of crime. The following crime types, or SFPD “incodes”, are used in this report to refer to cannabis-related crimes:

- Marijuana offense (16010)<sup>75</sup>
- Marijuana – possession for sale (16030)
- Marijuana – sales (16040)
- Marijuana – transporting (16060)
- Marijuana – cultivating/planting (16020)
- Marijuana – furnishing (16050)
- Marijuana – encouraging minor to use (16070)

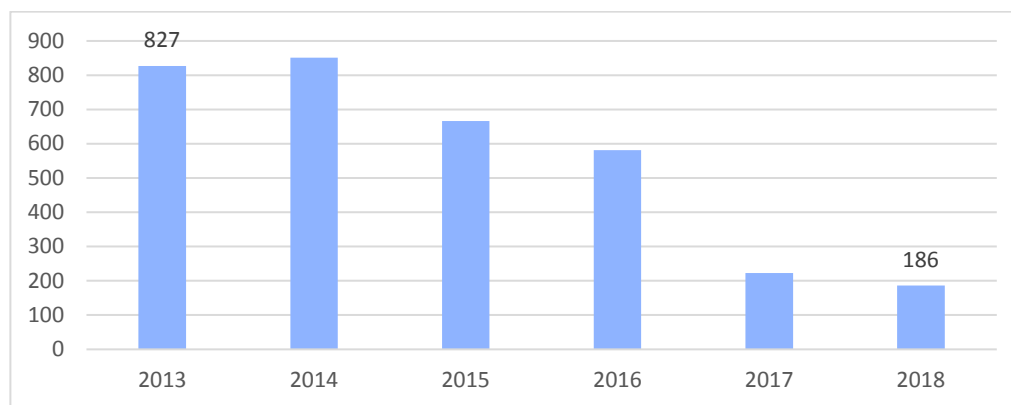
In 2018, cannabis-related crimes accounted for only one tenth of one percent of all crimes in San Francisco. Since 2013, San Francisco cannabis-related crimes **have decreased by 78%, down from 827 incidents to only 186 incidents in 2018** (Figure 5.1). There was a 17% decrease (or 37 incidents) in cannabis crimes between 2017 and 2018 after legalization of adult-use cannabis.

0.1%

The percentage of cannabis-related crimes of total crimes in San Francisco in 2018.

**Figure 5.1 Cannabis-Related Crimes (2013-2018)**

There was an average of 15.5 cannabis-related crimes per month in 2018.



Source: SFPD Crime Data Warehouse

<sup>74</sup> The Controller’s Office was unable to obtain citation data related to cannabis specifically; however, infractions, misdemeanors, and felonies documented on an incident report were included in this analysis. For more information on the data methodology and limitations, please see Appendix G, SFPD Data Analysis Methodology.

<sup>75</sup> The “Marijuana offense (16010)” incode is commonly the first incode used when a police officer is responding to a non-specific cannabis-related incident. The officer may add additional incodes after arriving on-scene if necessary. For this reason, this cannabis crime type is the most frequent recorded for cannabis crimes.



Similarly, incident reports that include use of other drug substances other than cannabis (e.g., amphetamines, cocaine, hallucinogens, heroin, opiates) have also decreased by 33% between 2013 and 2018.<sup>76</sup> These non-cannabis drug crimes went from a high of 5,404 in 2013 to a low of 3,629 in 2018.

**The majority of cannabis-related crimes (59%) have occurred in the Tenderloin, Park, and Mission police districts between 2013 and 2018**, as detailed below in Figure 5.2. **The Tenderloin police district, despite being the smallest in total land size, has the most cannabis-related crimes** of any San Francisco police district at 29%. Only the Mission police district is both in the top three for cannabis-related crime and all crime in the city.

**Figure 5.2 Cannabis-Related Crime Compared to All Crime by Police District (2013 - 2018)**

Cannabis-Related Crime Locations		All Crime Locations	
Police District	Crime Location Percentage	Police District	Crime Location Percentage
Tenderloin	29%	Southern	19%
Park	17%	Northern	13%
Mission	13%	Mission	13%
Bayview	11%	Central	13%
Southern	7%	Bayview	9%
Ingleside	6%	Ingleside	8%
Northern	5%	Taraval	7%
Central	5%	Tenderloin	6%
Taraval	4%	Richmond	6%
Richmond	3%	Park	6%

Source: SFPD Crime Data Warehouse (Cannabis-Related Crime) and DataSF Open Data (All Crime)

SFPD incident reports can include multiple incodes or crime types in a single incident report. Between 2013 and 2018, the 2,808 incident reports with cannabis-related crime included an average of three additional crime types with a maximum of eleven. Eighty-three percent of these incident reports included at least one additional non-cannabis crime, and the remaining 17% included only cannabis-related crimes.

When analyzing the additional crime types contained in these cannabis-related incident reports, 46% encompassed other cannabis crimes (e.g., an incident report with a general “marijuana offense” could also include “marijuana – sales” as an additional crime type). The most common non-cannabis crime types involved warrant arrests (11%), a methamphetamine offense (5%), or a cocaine offense (3%). The

<sup>76</sup> The Controller’s Office analyzed the SFPD’s incident reports containing specific incodes to drugs other than cannabis between 2013 to 2018 from the city’s DataSF Open Data website. <https://data.sfgov.org/browse?category=Public+Safety>

following crime types are the most frequent additional crimes associated with cannabis-related incidents:<sup>77</sup>

- Cannabis-related crimes (46%)
- Warrant arrests (11%)
- Methamphetamine offense (5%)
- Cocaine offense (3%)
- Traffic violation (3%)
- Probation search (3%)
- Resisting, delaying, or obstructing peace officer duties (2%)
- Firearm possession (2%)
- Controlled substance offense (2%)
- Narcotics paraphernalia (2%)

## Cannabis Arrests

African-Americans are disproportionately arrested for cannabis-related crimes in San Francisco compared to all other recorded races on SFPD incident reports. **While African-Americans make up less than six percent of the total population of San Francisco,<sup>78</sup> they comprise almost half of all cannabis arrests between 2013 and 2018.** White individuals make up over 40% of those who live in the city, yet they comprise only 29% of the arrests in this time period. The U.S. Department of Health and Human Services national survey on drug use and health, however, indicates that all races use cannabis at similar rates.<sup>79</sup>

Despite the total number of cannabis-related crimes decreasing year-over-year from 827 incidents in 2013 to 186 in 2018 (a decrease of 78%), the racial disparity of who is arrested has not changed. African-Americans have been disproportionately arrested at the highest percentage rate compared to all other races. In fact, African-Americans comprise between 41% and 52% of cannabis-related arrests since 2000.<sup>80</sup>

This racial arrest disparity in San Francisco continues when examining arrest records for all felony drug types. Between 2010 and 2016, drug arrests fell for all races, yet even at

### SF Cannabis Arrest Percentages by Race Compared to US Census Population Percentage (2013 – 2018)

	Arrest %	Census %
African American	49%	6%
White	29%	40%
Hispanic or Latin	14%	15%
Asian/Pacific Islander	5%	36%
American Indian & Alaskan Native	1%	1%

<sup>77</sup> The remaining cannabis crime types are each 1% or less of the total.

<sup>78</sup> US Census QuickFacts on San Francisco County, CA. <https://www.census.gov/quickfacts/sanfranciscocountycalifornia>

<sup>79</sup> "Results from 2016 National Survey on Drug use and health." SAMHSA, 9/7/17.

<https://www.samhsa.gov/data/sites/default/files/NSDUH-DetTabs-2016/NSDUH-DetTabs-2016.pdf>

<sup>80</sup> San Francisco Sheriff's Office Arrests Data (2000-2012), SFPD Arrest Data (2013-2018)

the lower levels, African-Americans in San Francisco experienced felony drug arrest rates ten times higher than San Franciscans of other races.<sup>81</sup>

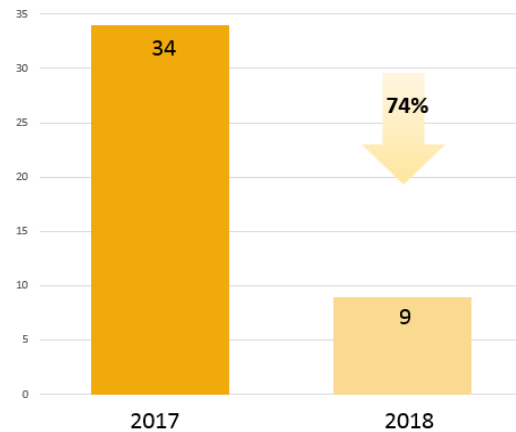
Cannabis-related arrests by sex is disproportionate as well. Males make up 51% of the population of San Francisco, but over 91% of all cannabis arrests in the city.

The average age of suspects in cannabis-related crimes is 31. The majority of all cannabis arrests include individuals between 20 to 40 years old.

The SFPD is unable to release individual or identifiable juvenile data without access granted by the courts, pursuant to state law.<sup>82</sup> However, the SFPD provided summary annual statistics of juvenile arrest data. Before adult-use cannabis legalization, there were 34 juvenile individuals who were booked or cited for a cannabis-related crime (See Figure 5.3). **In 2018, after legalization, only nine juveniles were booked for cannabis-related crimes, a decrease of 74%.**

**Figure 5.3 Juvenile Arrests for Cannabis**

74% fewer juveniles were cited or booked in 2018 for cannabis-related crimes.



Source: SFPD Business Intelligence Team

<sup>81</sup> "San Francisco's Drug Arrests Drop 90% through 2016; Disproportionate Arrests of African-Americans Persist." Center on Juvenile and Criminal Justice, 10/1/17.

[https://officeofcannabis.sfgov.org/themes/custom/cannabis/pdf/11.19.2017\\_Equity\\_Report.pdf](https://officeofcannabis.sfgov.org/themes/custom/cannabis/pdf/11.19.2017_Equity_Report.pdf)

<sup>82</sup> California AB-2952 Juvenile Records.

[https://leginfo.ca.gov/faces/billTextClient.xhtml?bill\\_id=201720180AB2952](https://leginfo.ca.gov/faces/billTextClient.xhtml?bill_id=201720180AB2952)

## CRIMES WITHIN 600 FEET OF CANNABIS OPERATORS

Several studies have shown that when legal cannabis retailers open in a neighborhood, crime rates drop in the surrounding area. Peer-reviewed articles in the National Institute on Drug Abuse,<sup>83</sup> Journal of Economic Behavior and Organization,<sup>84</sup> and the Regional Science and Urban Economics<sup>85</sup> point to either a decrease in property and violent crime or no increase after the opening of a legal cannabis business in the area.

To determine if there were changes in crime trends post legalization of adult-use cannabis in January 2018, the Controller's Office analyzed SFPD crime data within a 600-foot radius of each retail storefront parcel between 2017 and 2018.<sup>86</sup> The crime types analyzed correspond to the Federal Bureau of Investigations Uniform Crime Reporting (UCR) program Part 1 property and violent types that all law enforcement agencies provide to demonstrate how crime patterns change over time. The following are the UCR crime types for property and violent crimes:<sup>87</sup>

- Violent Crimes
  - Homicide
  - Rape
  - Robbery
  - Aggravated Assault
- Property Crimes
  - Burglary
  - Larceny-Theft
  - Motor Vehicle Theft
  - Arson

### Cannabis Operator Zoning

Cannabis businesses are primarily located in commercial areas of the city. It is likely that the commercial areas themselves, not the cannabis businesses, drive the amount of crime near their locations. In Figure 5.4, the green, purple, and brown areas of the SF Planning Permitted Cannabis Location map (left) are areas in the city zoned for cannabis operations. The SF Planning Zoning map (right) shows the city's neighborhood commercial districts (purple) and downtown commercial districts (red) which roughly align with the permitted cannabis locations. These commercial districts typically experience more crime

<sup>83</sup> "Marijuana Dispensaries Make Neighborhoods Safer." CBS, 7/20/17.

<https://sacramento.cbslocal.com/2017/07/20/study-marijuana-dispensaries-make-neighborhoods-safer/>

<sup>84</sup> "Crime and the Legalization of Recreational Marijuana." Journal of Economic Behavior and Organization, 3/1/19.

<https://www.sciencedirect.com/science/article/pii/S0167268118300386>

<sup>85</sup> "Crime Rates Drop After Marijuana Dispensaries Open." Boston Globe, 8/29/19.

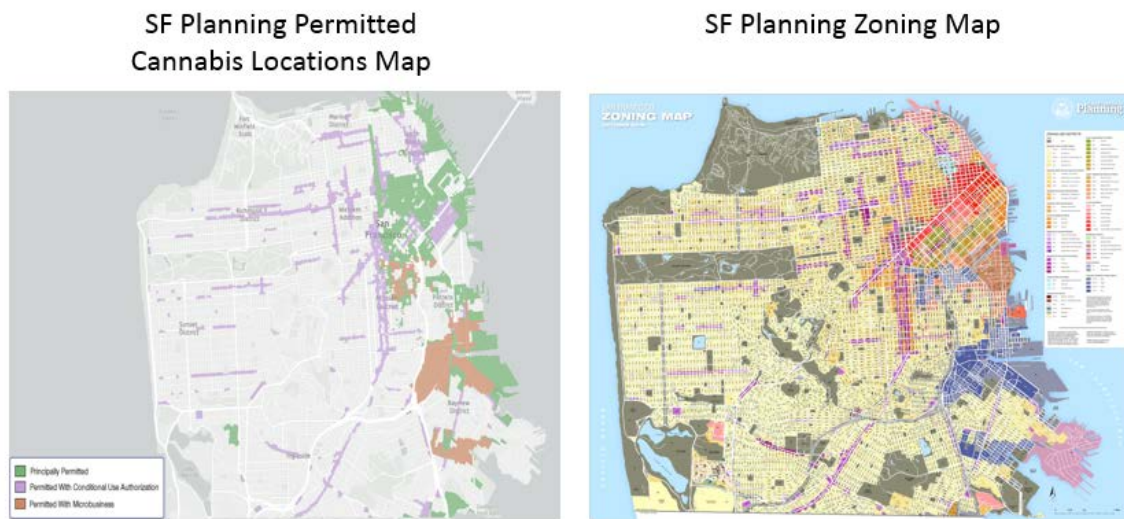
<https://www.bostonglobe.com/news/marijuana/2019/08/29/crime-rates-drop-after-marijuana-dispensaries-open-nearby-study-finds/mv4Ri4Bbc36OG8EaKXffXN/story.html>

<sup>86</sup> Due to limitations in the availability of accurate cannabis storefront retail opening dates, the Controller's Office studied crime trend changes pre and post adult-use cannabis legalization using the date of January 5, 2018 as opposed to when the retail storefront began operating. The majority of retail storefronts, medical cannabis dispensers (MCDs), were existing prior to the adult-use legalization. No citation data was available. See Appendix G, SFPD Data Analysis Methodology for more information.

<sup>87</sup> UCR crime types do not include all types of crime, but instead use four serious "Part 1" crime types each in the property and violent categories as indicators of overall crime trends.

than non-commercially zoned areas, which is likely driving the similar increase in crime around cannabis locations. Similarly, in Los Angeles, commercially-zoned city blocks have crime rates that are 45 percent higher than blocks zoned for residential use.<sup>88</sup>

**Figure 5.4 San Francisco Planning Zoning Maps**



Source: San Francisco Planning Department

In the heat maps of SFPD crime data in Figure 5.5, the red and yellow areas show higher concentrations of property and violent crime while the light purple and grey areas show less concentration of crime. The high amount of violent and property crime within the whole city (left map) is most prevalent in the commercial and business districts of the Financial district, along Market street, South of Market, the Mission, and some of the Bayview. The highest density of crime within 600 feet of cannabis locations (right map) are also in high trafficked commercial districts which matches similar patterns of crime within the city at large. The citywide data includes residential areas which typically have less crime. The location of the cannabis businesses within a commercial district, and not the cannabis businesses themselves, is the driving factor for the amount of property and violent crime.

<sup>88</sup> "Land-Use Zoning Shown to Affect Crime Rates in LA." RAND, 3/5/13.  
<https://www.rand.org/news/press/2013/03/05.html>

### Figure 5.5 Heat Map of San Francisco Property and Violent Crime (2013 - 2018)

The highest amount of crime around cannabis locations relates directly to the highest amount of crimes for the entire city.



Source: SFPD Crime Data Warehouse

**In 2018, cannabis retailers saw a greater decrease in crime compared to the whole city.** Between the first six months after adult-use cannabis was legalized in January 2018 and the last six months of 2018,<sup>89</sup> property and violent crime decreased by two percent within 600 feet of storefront locations while the city had an eight percent increase overall.<sup>90</sup>

- 2%

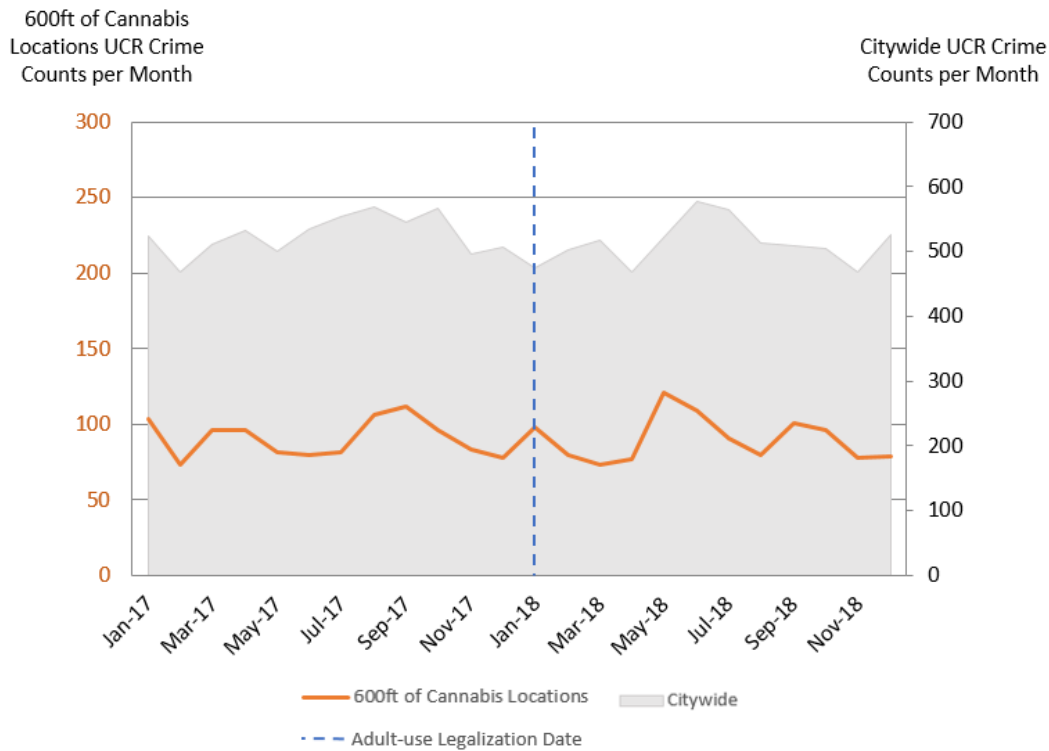
Amount property and violent crime decreased within 600 feet of cannabis retailers between the first and second half of 2018.

<sup>89</sup> The Controller's Office compared the average property and violent count of the first six months to the second six months of 2018.

<sup>90</sup> The counts of property and violent crime within 600 feet of known legal cannabis retail operators is a total count of crime within those radiuses. The counts of property and violent crime for the whole city is also measured by a total count.

Violent crimes near operators decreased by six percent compared to a less than one percent increase for the city in 2018. In Figure 5.6, there are several similar up and down fluctuations in both the operator and citywide data sets, which illustrates the likely correlation between crime in commercial districts and crime near operators. In 2018, UCR violent crime counts are relatively stable with a monthly average of 512 (citywide) and 90 (600 feet of cannabis operators).

**Figure 5.6 Violent UCR Crime Count**

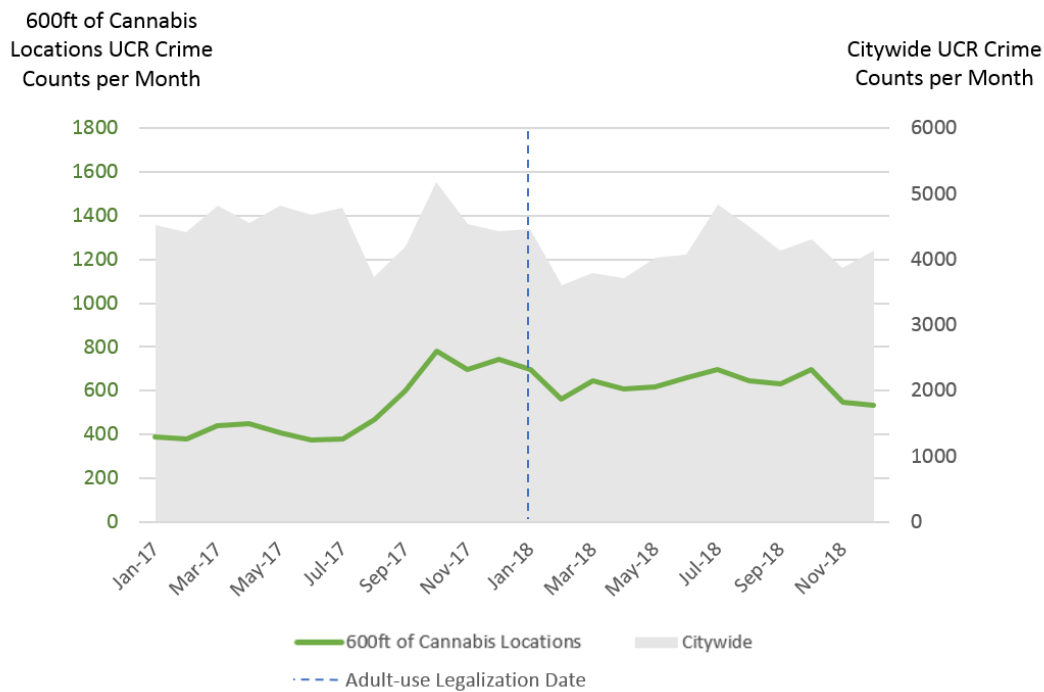


Source: SFPD Crime Data Warehouse (Near Cannabis Locations) and Controller's Office Performance Scorecards for Public Safety (Citywide)

In 2018, property crimes near operators decreased by one percent compared to a nine percent increase for the city (See Figure 5.7). However, in the second half of 2017, before legalization, there was a spike of property crime near cannabis locations. In 2018, the property crimes within 600 feet of cannabis operators had a monthly average of 629, whereas citywide, the monthly average was 4,125.

### Figure 5.7 Property Crime Count

Property crime count decreased in 2018 after a significant spike prior to adult-use legalization.



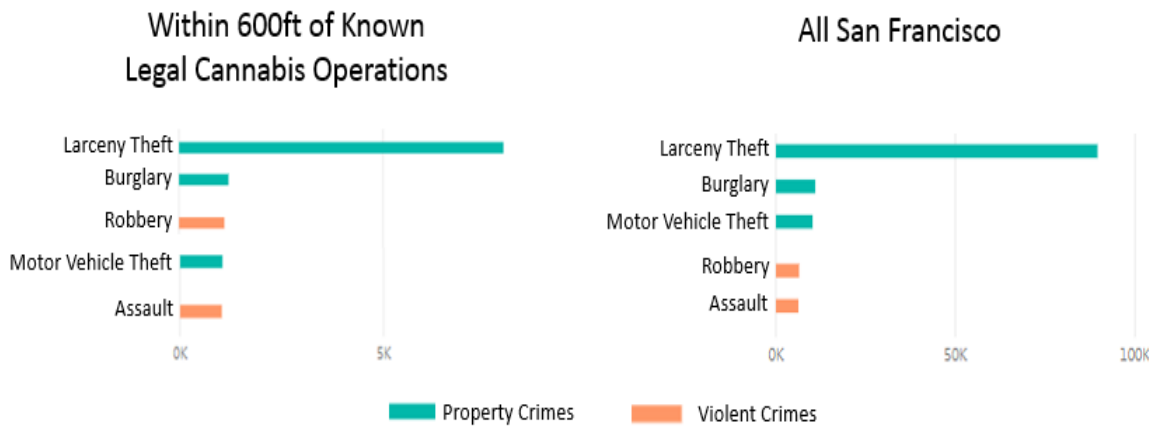
Source: SFPD Crime Data Warehouse and Controller's Office Performance Scorecards for Public Safety



As illustrated in Figure 5.8, **the top five property and violent crime types for both all of San Francisco and within 600 feet of cannabis retail operators are identical in 2018**. The first and second most frequently reported crime types, larceny theft and burglary, are nearly the same in percentage of total crime within 600 feet of retail operators and citywide. The data sets' identical crime types further support the notion that crime that occurs near cannabis locations is likely driven by the crime occurring in commercial districts, rather than a notion that cannabis operators attract more crime or certain crime types than other businesses.

### Figure 5.8 Most Frequent Crime Types (2018)

Larceny theft and burglary are the two most common crimes both within 600ft of known legal cannabis operations and in all of San Francisco.<sup>91</sup>



Source: SFPD Crime Data Warehouse

<sup>91</sup> Both graphs account for over 95% of all property and violent crime types.

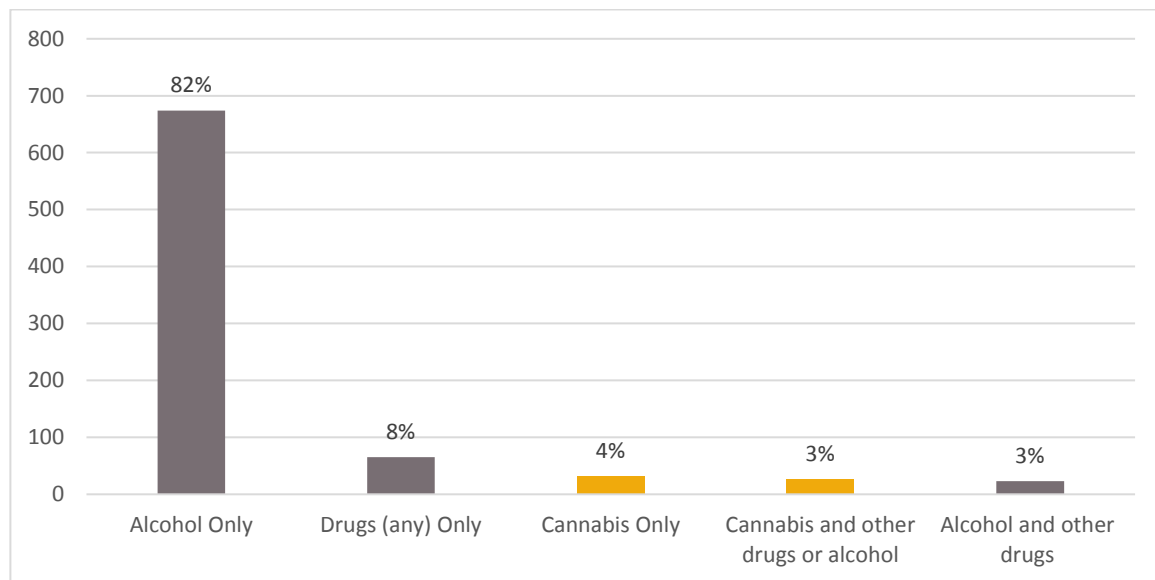
## OTHER LAW ENFORCEMENT AND COMPLAINT DATA

### California Highway Patrol DUIs

California Highway Patrol (CHP)-San Francisco is the primary law enforcement agency that makes driving under the influence (DUI) traffic stops and arrests in San Francisco, although the SFPD also may make stops on city roads. The DUI data received from CHP-San Francisco includes all stops within the city, all highways within, and includes the Golden Gate Bridge and Bay Bridge.<sup>92</sup>

In January 2018, CHP-San Francisco began tracking the number cannabis-related DUIs by having officers self-report their findings at the end of each shift.<sup>93</sup> CHP-San Francisco records five types of DUI arrests: alcohol only, drugs (of any kind, including cannabis) only, cannabis only, cannabis combined with other drugs, and alcohol combined with other drugs (including cannabis). **Cannabis-only DUIs in San Francisco account for less than four percent of all DUIs (or 31) in 2018.** As illustrated in Figure 5.9, alcohol-only DUIs represents the most frequent reason for an arrest at 674 or 82% of all DUIs, and the remaining other drugs or combinations (including cannabis) account for a total of 18% of DUI arrests in 2018.

**Figure 5.9 San Francisco DUIs by Arrest Type (2018)**



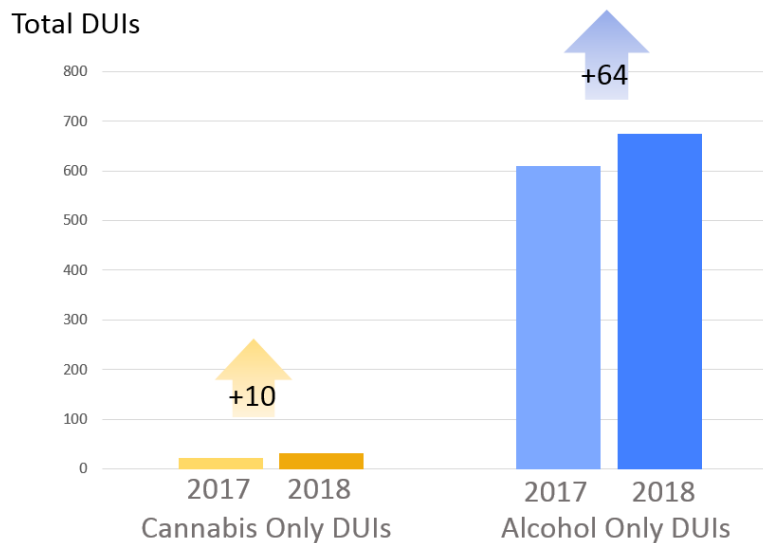
Source: California Highway Patrol – Golden Gate Division

<sup>92</sup> The Controller's Office was unable to obtain search warrant data to study illegal cannabis operations. For more information on the data methodology and limitations, please see Appendix G, SFPD Data Analysis Methodology.

<sup>93</sup> All CHP officers are trained to detect signs of drug and/or alcohol impairment. If an officer detects signs of impairment (e.g., lethargy or certain smells) they may implement field sobriety tests to determine if the driver is not safe to operate the vehicle. If the driver fails the field sobriety test, they are arrested and taken to the CHP office for a trained drug recognition expert to conduct more sobriety physiological tests (e.g., blood pressure, pulse rate, pupil size). If the suspect fails the latest sobriety tests, a blood test is given, and the CHP-San Francisco officer records what type of impairment (cannabis, alcohol, other drugs) was involved.

In 2019, CHP-San Francisco also reexamined 2017 DUI data to determine the number of cannabis-related incidents. **In both years, alcohol is the greatest reason for drivers being arrested for driving under the influence in San Francisco.** Between 2017 and 2018, there were 64 more alcohol-only DUIs compared to 10 more cannabis-only DUIs, accounting for an 11% and 37% increase respectively (see Figure 5.10).

**Figure 5.10 San Francisco DUI Counts (2017 - 2018)**



Source: California Highway Patrol – Golden Gate Division

## San Francisco 311 Service Requests

San Francisco 311 (SF311) is the primary customer service center for the city and is available 24 hours a day, seven days a week for anyone seeking general information or initiating a service request with the city's government agencies. The Controller's Office analyzed four years of service request data from 2015 through 2018 to understand how many complaints or requests were generated by the public regarding cannabis.

**0.003%**

The percent of cannabis-related SF311 complaints or requests in 2018.

SF311 received a total of 600,000 service requests in 2018, or on average 1,644 every day. This is an increase of over 74% since 2015. **Complaints from the public regarding cannabis accounted for 15 calls in 2018, or a negligible 0.003% of all SF311 calls.** This is a 46% decrease, from 28, of cannabis-related calls to SF311 in 2017.

Most cannabis-related calls to SF311 are regarding residents complaining that their neighbor may be using cannabis within the residence. The San Francisco

Department of Public Health (SFDPH) consistently responds that the health code allows residents to smoke inside their units and all outdoor areas attached to the unit.<sup>94</sup>

Given the negligible proportion of SF311 complaints related to cannabis and that the subject matter is primarily related to smoke nuisance, this may imply that cannabis is not a primary SF311 concern for San Franciscans and/or that either more serious issues are handled by the SFPD.

The Controller's Office also compared cannabis calls to alcohol and any drug-related complaints or requests to SF311. Like cannabis, both alcohol and drug complaints and requests make up less than a tenth of one percent of all SF311 calls.

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<sup>94</sup> SFDPH does inform the callers that property owners have the right to add a smoke-free addendum outlining where smoking cigarettes, tobacco, and/or cannabis is allowed (or not allowed) throughout the building to new leases and existing tenants who requests a change in their lease. There are currently no state or local laws requiring property owners to have smoke-free buildings.

## KEY FINDINGS & RECOMMENDATIONS

Topic	Finding
<b>Cannabis Crimes &amp; Arrests</b>	<b>5.1</b> In 2018, cannabis-related crimes accounted for only one tenth of one percent of all crimes in San Francisco (Page 64)
	<b>5.2</b> Since 2013, cannabis-related crimes have decreased by 78%, down to only 186 incidents in 2018 (Page 64)
	<b>5.3</b> The Tenderloin police district, despite being the smallest in total land size of all districts, has the most cannabis-related crimes of any San Francisco police district at 29%. (Page 65)
	<b>5.4</b> African-Americans are disproportionally arrested for cannabis-related crimes in San Francisco compared to all other recorded races on SFPD incident reports. (Page 66)
	<b>5.5</b> 74% fewer juveniles were arrested for cannabis-related crimes in 2018 (9 arrests) than in 2017 (34 arrests). (Page 67)
<b>Recommendation 5.A:</b> Because cannabis-related crimes are decreasing and represent a small percentage of total crime in San Francisco, the Controller's Office does not recommend limits to the number of cannabis business permits to address public safety concerns at this time.	
<b>Crimes Within 600ft of Cannabis Operators</b>	<b>5.6</b> Cannabis businesses are primarily permitted in commercial business areas of the city which may affect the amount of crime near their locations. (Page 68)
	<b>5.7</b> In 2018, cannabis business locations saw a 6% decrease in violent crime compared to a less than 1% increase citywide. (Page 71)
	<b>5.8</b> In 2018, cannabis business locations saw a 1% decrease in property crime compared to a 9% increase citywide. (Page 72)
	<b>5.9</b> The top five property or violent crime types for both all of San Francisco and within 600 feet of known legal cannabis operations are the exact same. Crime that occurs near cannabis locations is likely driven by the crime occurring in commercial districts, rather than a notion that cannabis operators attract more crime or certain crime types. (Page 73)
<b>Recommendation 5.B:</b> Based on the decreasing amount of property and violent crime around legal cannabis locations in 2018, the Controller's Office does not recommend any limits to the number of cannabis operator permits to address public safety concerns at this time.	
<b>Other Law Enforcement and Complaint Data</b>	<b>5.10</b> Cannabis-only DUIs in San Francisco account for less than four percent of all DUIs in 2018. (Page 74)
	<b>5.11</b> In both 2017 and 2018, alcohol is the greatest reason for drivers in San Francisco to be arrested for driving under the influence. (Page 75)
	<b>5.12</b> There were 15 SF311 complaints from the public regarding cannabis in 2018, or a negligible 0.003% of all SF311 calls. (Page 76)

## 6. Public Health

Research surrounding cannabis and its health impacts is mixed and has been limited due to longstanding federal prohibitions. While the medical use of cannabis for specific conditions has been one of the major factors in advancing legalization, smoking is harmful to the lungs and cannabis use disorder is a recognized medical diagnosis. In its youth-targeted information campaign concerning cannabis use, the San Francisco Department of Public Health states “Like cigarettes, smoking cannabis can damage your lungs. If consumed by teens and those in their early 20s, cannabis can also affect brain development. (There is still a lot more to learn.) When weed is combined with other substances such as alcohol or tobacco, the health risks are higher.”

With the passage of adult-use legalization, the San Francisco Board of Supervisors stated certain public health goals, including “minimiz[ing] the changes of social harm by protecting and promoting the health of all San Franciscans; limit[ing] youth access and exposure to cannabis and cannabis products; ensur[ing] safe consumption; [and maintaining] the city’s progressive clean air policies for residents, business, and their employees.”<sup>95</sup>

Since adult-use legalization, there have been mixed trends regarding youth use, hospital admissions, and substance use treatment admissions, which are analyzed in this chapter.

### YOUTH CANNABIS USE

The Centers for Disease Control and Prevention (CDC) monitors health-related behaviors among youth across the country in a program called the Youth Risk Behavior Surveillance System (YRBSS). The YRBSS includes a national school-based survey that asks students about behaviors including cannabis use, among other drugs. The survey is administered every two years in odd-numbered years, and the last available year is 2017. The survey was administered in 2019, but the data is not yet available.<sup>96</sup>

Going back to the late 1990s, national trends related to cannabis use among high schoolers show decreasing use, as shown in Figure 6.1.

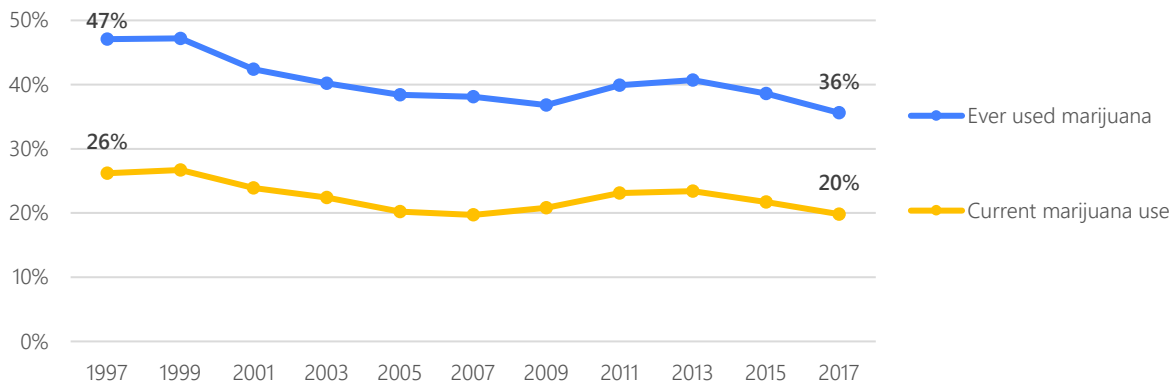
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<sup>95</sup> San Francisco Ordinance 230-17, §1600.

<sup>96</sup> Data may become available in October 2019.

### Figure 6.1 National Trends of Marijuana Use Among 9<sup>th</sup>-12<sup>th</sup> Graders

The percentage of high school students who have ever tried marijuana, and who are currently using marijuana, have both fallen by approximately 24% since 1997.



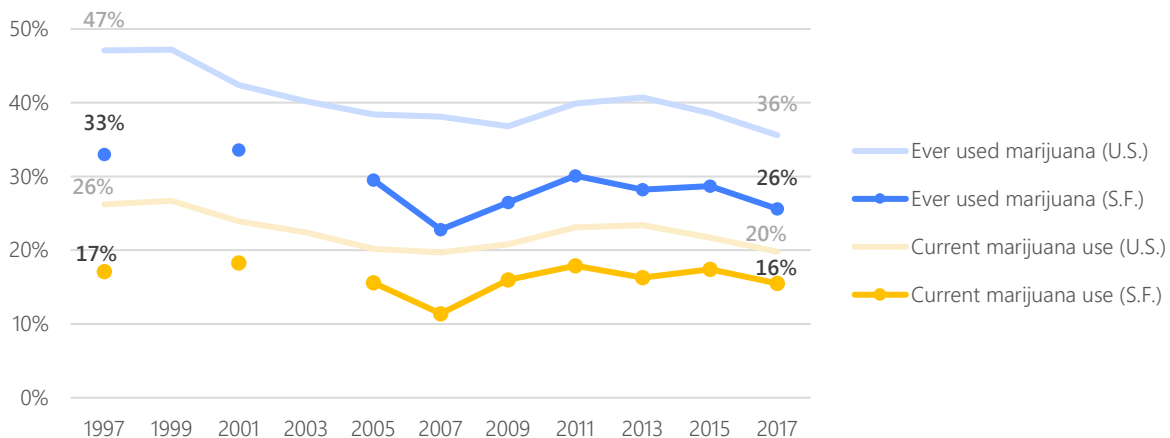
Note: "Current marijuana use" is defined as using one or more times during the 30 days before the survey was administered.  
 Source: Trends in the Prevalence of Marijuana, Cocaine, and Other Illegal Drug Use National YRBS: 1991-2017. Centers for Disease Control and Prevention. <[https://www.cdc.gov/healthyyouth/data/yrbs/pdf/trends/2017\\_us\\_drug\\_trend\\_yrbs.pdf](https://www.cdc.gov/healthyyouth/data/yrbs/pdf/trends/2017_us_drug_trend_yrbs.pdf)>

As shown in Figure 6.1, this trend of decreasing use among youth has fluctuated up and down, but overall, decreased over two decades. This would seem to contradict the notion that increasingly permissive attitudes towards cannabis increase youth use, as this decreasing trend has sustained while numerous states have legalized cannabis.

Similarly, local trends in cannabis use have followed the national trend. **Since the late 1990s, San Francisco high school students have reported overall decreasing levels of cannabis use.** Importantly, San Francisco has lower reported levels of use than the national average.

### Figure 6.2 Local Trends of Marijuana Use Among 9<sup>th</sup>-12<sup>th</sup> Graders

Cannabis use among San Francisco high school students has followed national decreasing trends, although the rate of use locally is lower than the national average.



Note: Data is not available for San Francisco in 1999 and 2003. "Current marijuana use" is defined as using one or more times during the 30 days before the survey was administered.

Source: Centers for Disease Control and Prevention: High School YRBS Online  
 <<https://nccd.cdc.gov/youthonline/App/Results.aspx?>>

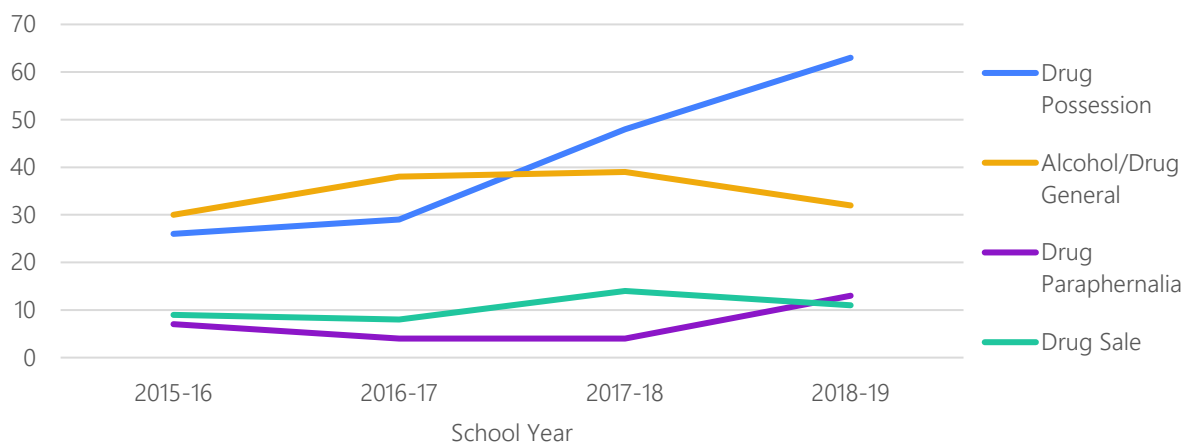
The multi-year trend of decreasing rates of use among youth is encouraging, but without 2019 data, it is not possible to analyze potential post-legalization trends locally. However, studies in the *Journal of the American Medical Association*<sup>97</sup> and from the Centers for Disease Control and Prevention<sup>98</sup> have indicated that youth use has remained steady or declined in states with adult-use cannabis legalization. In Colorado, where cannabis has been legalized for adult use since 2012, the Colorado Division of Criminal Justice released a 2018 report that found the “proportion of Colorado high school students reporting using marijuana ever in their lifetime remained statistically unchanged between 2005 and 2017.” And further, “there was no statistically significant difference between Colorado student responses compared to national data” despite legalization since 2012. From 2011 (pre-legalization) to 2017 (post-legalization), many of Colorado’s youth use indicators fell.<sup>99</sup>

## SFUSD Suspension Data

The San Francisco Unified School District (SFUSD) monitors suspensions in its schools by the violation/reason for the suspension, including drug use, possession, and sale. This data was analyzed over the last four completed school years, although the data is not broken down by exactly what drugs the student was suspended for possessing or using (e.g., cannabis or some other drug). Anecdotally, SFUSD reports that most drug possession cases involve cannabis, and almost all drug sale cases involve cannabis even when some other drugs are also involved. Figure 6.3 shows SFUSD suspension data by violation over the last four school years (see Appendix H, SFUSD Drug-Related Suspensions).

### Figure 6.3 SFUSD Suspensions by Violation Category by School Year

Suspensions for drug possession increased in the 2017-18 and 2018-19 school years. Suspensions for other drug-related categories showed little change.



Source: SFUSD Student, Family & Community Support Division

<sup>97</sup> “Association of Marijuana Laws with Teen Marijuana.” *Jama Pediatrics*, 7/8/19.

<https://jamanetwork.com/journals/jamapediatrics/article-abstract/2737637>

<sup>98</sup> “Trends and Characteristics in Marijuana Use Among Public School Students – King County, Washington, 2004 – 2016.” CDC, 10/4/19. [https://www.cdc.gov/mmwr/volumes/68/wr/mm6839a3.htm?s\\_cid=mm6839a3\\_w](https://www.cdc.gov/mmwr/volumes/68/wr/mm6839a3.htm?s_cid=mm6839a3_w)

<sup>99</sup> Lifetime (ever) use: 2011 – 39.5%, 2017 – 35.2%. Past 30-days use: 2011 – 22.0%, 2017 – 19.4%. Use before 13 years old: 2011 – 9.0%, 2017 – 6.5%. While these figures fell, some were not statistically significant. Colorado Division of Criminal Justice: Impacts of Marijuana Legalization in Colorado: A Report Pursuant to Senate Bill 13-283. October 2018.

[http://cdpsdocs.state.co.us/ors/docs/reports/2018-SB13-283\\_Rpt.pdf](http://cdpsdocs.state.co.us/ors/docs/reports/2018-SB13-283_Rpt.pdf)



Suspensions for drug possession have increased over the last two school years; however, the 2017-18 school year included both pre-legalization and post-legalization months. In order to further analyze if the legalization date of January 2018 impacted suspensions, Figure 6.4 presents suspension data according to the average number of suspensions per month in each violation category.

**Figure 6.4 Average SFUSD Suspensions per Month by Calendar Year<sup>100</sup>**

Average suspensions per month for drug possession increase following legalization. Data post-legalization is shown in bold.

	2015	2016	2017	2018	2019
<b>Drug Possession</b>	3.6	1.3	4.4	<b>5.7</b>	<b>7.0</b>
<b>Alcohol/Drug General</b>	2.2	3.0	4.6	<b>4.0</b>	<b>3.0</b>
<b>Drug Paraphernalia</b>	0.6	0.7	0.3	<b>1.0</b>	<b>1.2</b>
<b>Drug Sale</b>	0.8	0.8	1.2	<b>1.2</b>	<b>1.4</b>

Source: SFUSD Student, Family & Community Support Division

Similar to the trend shown in Figure 6.3, suspensions related to drug possession do appear to increase, on average, following legalization in January 2018. This data is limited, however, by the limited sample size: in calendar year 2017 there were 44 suspensions for drug possession, and in calendar year 2018 there were 57 suspensions for drug possession. This is an increase of 13 suspensions across the entire school district of over 50,000 students. Further, without the ability to tie these possession suspensions specifically to cannabis, it is difficult to draw significant conclusions.

Anecdotal, SFUSD reports that the district has seen a significant increase in vaping, although it is often difficult to determine if students are vaping tobacco, cannabis, or both.<sup>101</sup> While the district did have a notable scare related to cannabis edibles in February 2018, in which multiple students were sickened by consuming edibles on campus, the district has not experienced anything on the same scale since then. In all, this data should continue to be monitored, particularly if suspensions for possession continue to rise, but it is too early to determine if legalization has had a major impact on drug-related disciplinary actions at this time.

## Youth Health Education

In response to cannabis legalization, the San Francisco Department of Public Health (SFDPH) undertook a youth-focused cannabis education campaign called “Truth or Nah”. The campaign used a harm reduction approach and focused on providing education surrounding cannabis use and its possible impacts, as opposed to abstinence-focused messaging. The campaign provided empirically-based answers to questions such as “No one gets addicted to weed, right?” and “Are edibles safe than smoking or vaping weed?”

<sup>100</sup> As school years do not run all calendar year, averages were created by dividing the data within the year by the number of months included in that calendar year, which is slightly different for each year depending on the academic calendar: 2015 had five months (August-December); 2016 had nine months (January-May and September-December); 2017 and 2018 had ten months (January-May and August-December); and 2019 had five months (January-May).

<sup>101</sup> In September 2019, Governor Newsom signed an Executive Order to combat youth vaping and launch a \$20 million statewide public awareness campaign about the health risks of vaping.

From November 2018 through May 2019, the campaign distributed 2,400 posters and 21,000 postcards to youth-serving clinics and middle/high school SFUSD health education and wellness staff. It also posted approximately 2,000 interior bus cards on Muni that ran for eight weeks. These materials were in English, Chinese, and Spanish. In addition, the campaign hosted a website (TruthorNah.org) that received almost 2,000 users between November 2018 to June 2019. Feedback sessions with youth found generally positive attitudes towards the campaign.

## HOSPITAL ADMISSIONS

Cannabis-related emergency department visits have generally been increasing over the last decade, however, this increasing trend pre-dates legalization. According to a report studying drug use in San Francisco, the Sentinel Community Site Report (see Appendix I, San Francisco Sentinel Community Site Report), “emergency department visits involving marijuana have increased steadily since 2006.”<sup>102</sup> This increase also coincides with increasingly permissive attitudes towards cannabis use, which could lead to increased *reporting* of use, rather than an actual increase in use.

Hospital admissions with cannabis diagnoses are tracked and primarily fall under two categories: (1) admissions for cannabis poisoning (which includes overconsumption) and (2) for cannabis use/abuse (which includes dependence).<sup>103</sup> These categories, however, are not always the primary reason for an individual’s hospital visit. For example, someone could visit the hospital presenting chest pain, and upon examination, also discuss their frequent cannabis use. In this case, the chest pain or its cause would be the primary diagnosis, and cannabis use or abuse would be a non-primary diagnosis. For this analysis, an admission with a cannabis diagnosis code is a “cannabis-indicated” admission, which is not the same as a “cannabis-caused” admission.

Regarding all cannabis-indicated admissions across primary and non-primary diagnoses to Zuckerberg San Francisco General Hospital & Trauma Center (ZSFG), there does appear to be an increase following legalization in January 2018. Figure 6.5 shows all cannabis-related admissions across all priorities, including poisoning and use/abuse, from January 2016 through April 2019.

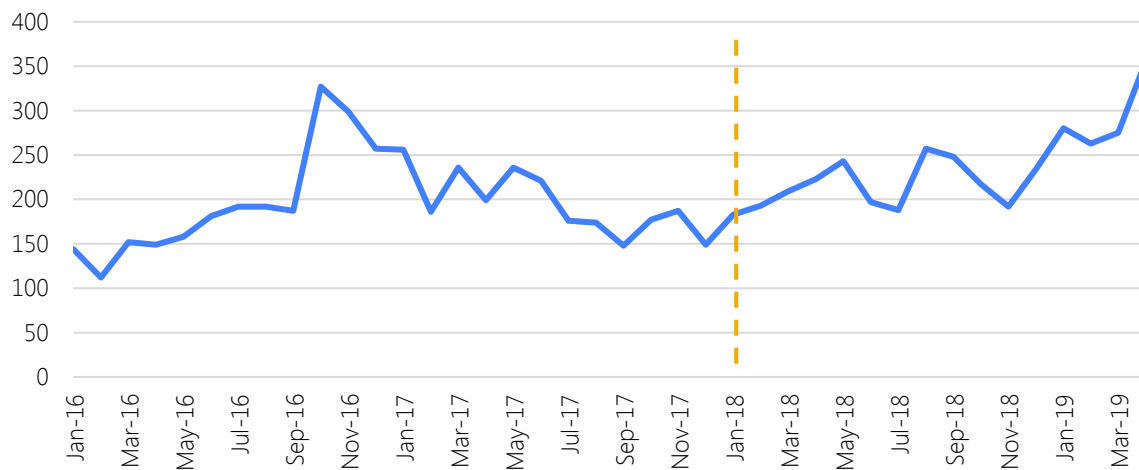
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<sup>102</sup> “San Francisco Sentinel Community Site Report: Drug Use Patterns and Trends, 2018.” National Drug Early Warning System. <<https://ndews.umd.edu/sites/ndews.umd.edu/files/SCS-Report-2018-San-Francisco-FINAL.pdf>>

<sup>103</sup> Data related to admissions by age cohort is not available for hospital admissions.

**Figure 6.5 Cannabis-Indicated Admissions to ZSFG**

Admissions for cannabis-induced diagnoses increase following legalization.



Source: SFDPH Business Intelligence Unit

Figure 6.5 shows an increase in cannabis-induced admissions, however, on average, 95% of these admissions have cannabis use/abuse indicated as a non-primary diagnosis, meaning that the individual presented to the hospital with some other primary diagnosis. With the legalization of adult-use cannabis and increased acceptance of its use, individuals may feel more comfortable discussing their personal use when they visit the hospital for some other primary reason, and doctors may be more familiar with recognizing and reporting use. It is difficult to determine how much of this trend could be related to such increased reporting. It is also important to note that admissions with cannabis-induced are relatively rare compared to the ZSFG total caseload: averaging less than one-third of one percent of total admissions.<sup>104</sup>

It is possible to analyze only “cannabis-caused”<sup>105</sup> visits to the hospital. For this analysis, cannabis-caused visits are considered to be:

- Cannabis poisoning in primary or non-primary diagnosis: this indicates that regardless of the primary diagnosis, an acute over-consumption of cannabis was indicated. This would capture individuals who have consumed a lot of cannabis but may be presenting other symptoms.
  - Example: someone who is exhibiting hallucinations or psychosis (primary diagnosis) and over-consumed cannabis (secondary diagnosis).
- Cannabis use/abuse in only primary diagnosis: this indicates that the individual received a primary diagnosis of cannabis use/abuse/dependence. This excludes individuals who presented other primary diagnosis.

<sup>104</sup> Over the period January 2016 to April 2018, admissions with cannabis indicated averaged 211 per month, while total ZSFG admissions averaged 70,626 per month (0.3%).

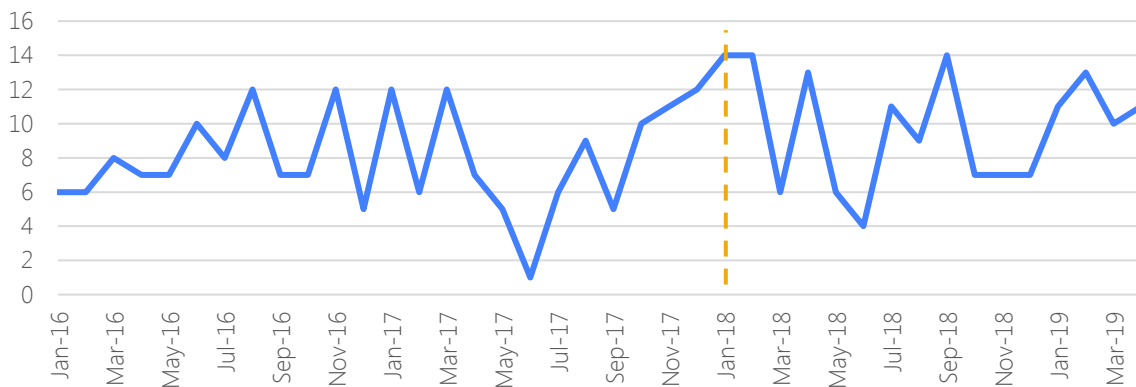
<sup>105</sup> It is not possible from the data to determine the true “cause” of an admission. This term applied here captures visits that are likely related to an individual’s exposure to cannabis.

- Example: someone who came to the hospital to seek treatment for cannabis use; does not include individuals who came to the hospital for another reason but also may present cannabis use/abuse.

This analysis for cannabis-caused admissions mimics the analysis used by the San Francisco Sentinel Community Site Report (see Appendix I, San Francisco Sentinel Community Site Report). Figure 6.6 shows data for only cannabis-caused visits to ZSFG.

### Figure 6.6 Cannabis-Caused Admissions to ZSFG

There are relatively few cannabis-caused admissions each month—the highest months have 14—and do not show a sustained increase following legalization.



Source: SFDPH Business Intelligence Unit

As shown in Figure 6.6, the number of cannabis-caused admissions each month to ZSFG are highly variable each month. This is related to their rarity—the average number of admissions per month is 9, while ZSFG averages 70,000 admissions each month. There may be a slight upward trend following legalization, as the five highest-admission months all occurred after legalization. Given the relatively low number of instances, however, it is difficult to state the significance of this increase.

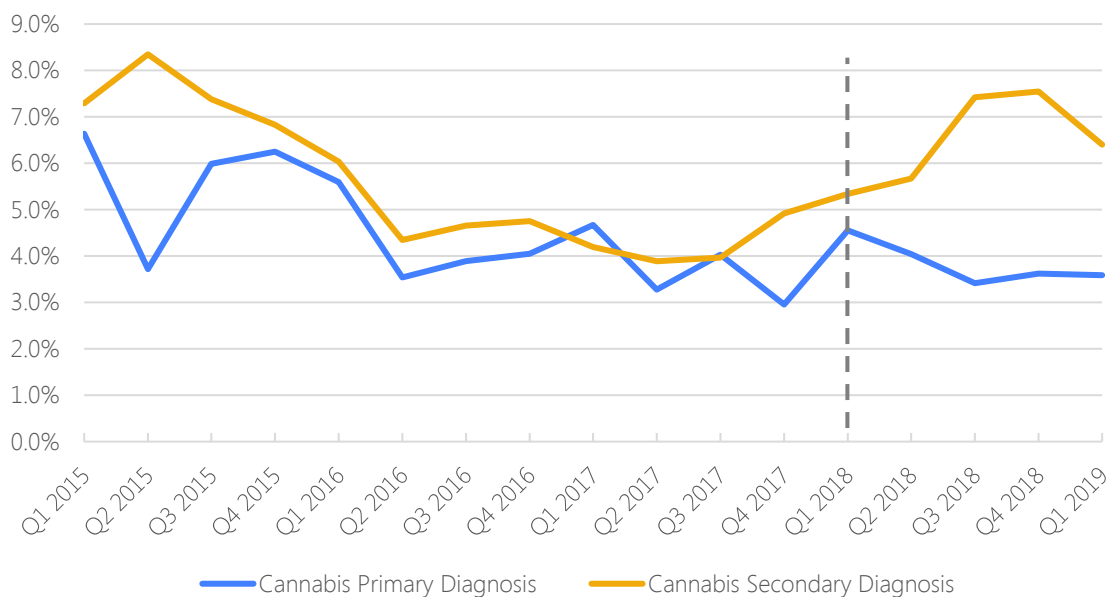
Overall, **there are low numbers of cannabis-caused admissions and admissions that indicate cannabis use, especially when compared to total admissions.** This data should continue to be monitored but does not currently signal a drastic increase in use that would require limiting cannabis business permits in San Francisco.

## TREATMENT ADMISSIONS

SFDPH tracks admissions to the city's Behavioral Health substance use treatment programs. Similar to hospital admissions, individuals can be diagnosed with cannabis as primary or non-primary; if it is non-primary, it means that the individual was diagnosed with additional conditions, and cannabis use was not the primary diagnosis. Figure 6.7 shows admissions for substance use treatment from January 2015 through March 2019, by admissions for primary diagnosis and secondary diagnosis.

**Figure 6.7 Cannabis Admissions as a Percentage of All Treatment Admissions**

Admissions for cannabis as a primary diagnosis have decreased since 2015. Cannabis as a secondary diagnosis may be increasing, but the start of this increase pre-dates legalization.



Source: SFDPH Behavioral Health Services

As shown in Figure 6.7, treatment admissions for cannabis have generally decreased as a percentage of all treatment admissions for primary diagnosis since 2015. There is a slight increase in the percentage of cannabis as a secondary diagnosis, however, it is too early to demonstrate that this increase has been sustained. If it is sustained over the long term, it may indicate that individuals are seeking substance use treatment for drugs other than cannabis, but that cannabis use among this group is increasing.

Treatment data can also be segmented by age categories in order to analyze any possible age-related trends. For this analysis, the data is segmented into three categories of youth: ages 0-12, 13-18, and 18-21. Only primary diagnoses of cannabis use are included, as secondary diagnoses for cannabis are rare among the younger age cohorts.<sup>106</sup> This data is shown in Figure 6.8.

**Figure 6.8 Youth Cannabis Treatment Admissions**

Youth admissions with a primary diagnosis of cannabis have generally been decreasing.

	Ages 0-12	Ages 13-18	Ages 18-21	Total
Year				
2015	13	229	48	290
2016	4	130	42	176
2017	1	79	40	120
2018	10	63	19	92

Source: SFPD Behavioral Health Services

Encouragingly, treatment admissions related to cannabis among youth have consistently decreased each year across all age cohorts, with the notable exception of the Ages 0-12 cohort in 2018. This may be an outlier, as seven out of these ten admissions happened in a single month (March 2018).

Overall, treatment admissions related to cannabis use have been declining over multiple years, and treatment admissions specifically for youth have mostly followed the same declining trend. This data should continue to be monitored but does not currently signal the need for limiting cannabis business permits.

## ANECDOTAL TRENDS

As part of the research for this chapter, the Controller's Office interviewed a number of health researchers and doctors about cannabis use and trends in public health. While it is too early to show many of these trends in data, it is important to recognize their anecdotal experience in order to monitor trends in the future.

In particular, concerns were raised regarding the strength of edibles and the possibility for acute overconsumption that causes visits to the hospital. Edibles cause special concern because of their delayed onset and the possibility that users may be unfamiliar with dosing. Anecdotally, ZSFG reports an increase in acute overconsumption episodes among both adults and youth. In adults, the symptoms are usually mild and temporary, although nausea, vomiting, and injuring oneself while intoxicated are concerns. In youth, there is greater concern. Children who accidentally consume cannabis can have serious symptoms, and cannabis may be implicated in more severe impacts including death among very young children.<sup>107</sup>

Most interviewees stressed the need for more time to analyze data. Public health-related trends often take years to develop, and much of the research into cannabis is still in its early stages following years of prohibition. In order to conclusively determine the health impacts, additional study is needed across all elements of health indicators.

<sup>106</sup> For ages 0-12, there were zero secondary diagnosis for cannabis between 2014 and 2018. For ages 13-18, there were a total of 74 between 2014 and 2018, but only 7 in 2017 and 5 in 2018.

<sup>107</sup> "Pediatric Death Due to Myocarditis After Exposure to Cannabis." Clinical Practice and Cases in Emergency Medicine, 1/20/17. <https://escholarship.org/uc/item/1n10w5pc#main>

## KEY FINDINGS AND RECOMMENDATIONS

Topic	Finding
Youth Use	<b>6.1</b> Nationally, use of cannabis among high school students has been decreasing since the 1990s, according to the Youth Risk Behavior Surveillance System. (Page 79)
	<b>6.2</b> Locally, use of cannabis among high school students has decreased along with national trends since the 1990s. Notably, San Francisco use rates are lower than national averages. (Page 79)
	<b>6.3</b> Data on local use following legalization is not yet available. A study in Colorado found no impact on youth use rates following legalization in 2012. (Page 80)
	<b>6.4</b> SFUSD suspensions for drug possession do appear to increase following the legalization of cannabis. The overall incidence of suspensions, however, is low, limiting the ability to draw significant conclusions from the data. (Page 80)
	<b>6.5</b> The San Francisco Department of Public Health (SFDPH) has distributed 2,400 posters and 21,000 postcards and placed 2,000 interior bus cards educating youth on the potential impacts of cannabis use in its “Truth or Nah” campaign. (Page 82)
Hospital Admissions	<b>6.6</b> Admissions to Zuckerberg San Francisco General Hospital (ZSFG) with cannabis indicated as a diagnosis increase following legalization, but 95% of these admissions indicate cannabis as a non-primary diagnosis (cannabis may not have been the main reason the individual sought treatment). (Page 83)
	<b>6.7</b> “Cannabis-caused” admissions to ZSFG may have slightly increased following legalization, although the trend is very slight, and the number of cases is small (between 1 and 14 each month). (Page 84)
	<b>6.8</b> Overall, admissions that indicate cannabis are relatively rare compared to overall admissions to ZSFG, making up less than one-third of one percent. (Page 83)
	<b>6.9</b> It is difficult to separate trends related to increasing cannabis use from the impact of increased comfortability discussing and recognizing cannabis use, leading to increased reporting. (Page 84)
Treatment Admissions	<b>6.10</b> Admissions to the SFDPH Behavioral Health Substance Use Treatment Programs for a primary diagnosis of cannabis have trended downwards since 2015. (Page 85)
	<b>6.11</b> Admissions to SFDPH substance use program for a secondary diagnosis of cannabis increased slightly beginning in the end of 2017. (Page 85)
	<b>6.12</b> As discussed in Finding 6.9, increased comfortability in reporting cannabis use makes it difficult to conclude that actual cannabis use is increasing among individuals seeking treatment. (Page 85)
	<b>6.13</b> Cannabis treatment admissions for youth generally decrease from 2015 to 2018, although there is a notable increase among the 0-12 years age group in 2018 that should be monitored. (Page 86)
Anecdotal Trends	<b>6.14</b> Anecdotally, health professionals in San Francisco reported concern over increasing episodes of overconsumption of cannabis, particularly of edibles, and particularly among youth who accidentally consume edibles. (Page 86)

Topic	Finding
	<b>6.15</b> Public health impacts can take years to develop, and legalization is in its early stages. It is too early to conclusively determine health impacts related to legalization at this stage. (Page 86)
<b>Recommendation 6.A:</b> Cannabis-related health indicators are mixed. It is too early to determine any recommendations regarding legalization and its public health impacts at this time.	
<b>Recommendation 6.B:</b> Cannabis-related health indicators should continue to be monitored, as significant and/or long-term changes may warrant further investment into public health education campaigns and/or programs.	



# Appendices

## APPENDIX A: CONTROLLER'S OFFICE RECOMMENDATIONS

ID	Recommendations
REGULATION	
2.A	As there have been no permanent cannabis business permits issued and the current operator pool is primarily businesses that were operating prior to legalization, it would be premature for the Controller's Office to recommend numeric limits to the number of cannabis business permits at this time.
2.B	As there have been no permanent cannabis business permits issued and the current geographic distribution of cannabis operators largely predates legalization (operators were primarily pre-existing), it would be premature for the Controller's Office to recommend geographic limits to the number of cannabis business permits at this time.
2.C	The Board of Supervisors and the Mayor should consider a moratorium on new storefront retail applications. In addition, they should consider methods of reducing the number of current storefront retail applications in queue, such as incentives to change pending storefront retail applications to other business activities. <i>(See also Recommendation 3.A)</i>
2.D	The Board of Supervisors, Mayor, and departments should consider creating a priority permitting lane or expedited processing for equity applicants in departments other than the Office of Cannabis, including but not limited to: Planning, Police, and Building Inspection. <i>(See also Recommendation 3.D)</i>
2.E	The Board of Supervisors and Mayor should consider providing additional benefits to equity applicants to help them through the lengthy permitting process, including capital and technical assistance (e.g., a loan program, permit navigation).
2.F	In order to reach revenue-generation faster, the Office of Cannabis should consider temporary positions to reduce the backlog of equity applicants and expedite application processing.
EQUITY	
3.A	The Board of Supervisors and Mayor should consider methods to reduce the number of storefront retail applications in queue, such as a moratorium on new storefront retail applications and/or incentives to change pending storefront retail applications to other business activities. Incentives offered to equity applicants could also be offered to equity incubators. <i>(See also Recommendation 2.C)</i>
3.B	Numeric or geographic limits to cannabis business permits should apply to new applicants rather than to the existing applicant pipeline.
3.C	The Board of Supervisors, Mayor, and City Attorney's Office should consider methods to fund the Community Reinvestment Fund. Further, they should consider possible legislative or policy modifications that would allow the Fund to be used for capital and technical assistance to equity applicants.
3.D	The Board of Supervisors, Mayor, and departments should consider recommending a priority permitting lane or expedited processing for equity applicants in departments other than the Office of Cannabis, including but not limited to: Planning, Police, and Building Inspection. <i>(See also Recommendation 2.D)</i>
3.E	The Board of Supervisors, Mayor, and City Attorney's Office should consider utilizing the Community Reinvestment Fund to provide capital assistance to equity applicants, including no-interest loan funding or banking options.

ID	Recommendations
3.F	The Board of Supervisors, Mayor, and City Attorney's Office should consider utilizing the Community Reinvestment Fund to fund contractors to provide additional technical assistance to equity applicants.
<b>ECONOMY</b>	
4.A	The existing legal cannabis market will become increasingly competitive with the entry of equity applicants. The illicit cannabis market, by some estimates, is much larger than the legal market. The Board of Supervisors, Mayor, and departments should adopt strategies and investments, where required, to halt the illicit cannabis market.
<b>PUBLIC SAFETY</b>	
5.A	Because cannabis-related crimes are decreasing and represent a small percentage of total crime in San Francisco, the Controller's Office does not recommend limits to the number of cannabis business permits to address public safety concerns at this time.
5.B	Based on the decreasing amount of property and violent crime around legal cannabis locations in 2018, the Controller's Office does not recommend any limits to the number of cannabis operator permits to address public safety concerns at this time.
<b>PUBLIC HEALTH</b>	
6.A	Cannabis-related health indicators are mixed. It is too early to determine any recommendations regarding legalization and its public health impacts at this time.
6.B	Cannabis-related health indicators should continue to be monitored, as significant and/or long-term changes may warrant further investment into public health education campaigns and/or programs.

## APPENDIX B: CONTROLLER'S OFFICE MEETINGS AND INTERVIEWS

The following table identifies each meeting the Controller's Office participated in during this project.

**Figure B.1 Controller's Office Meetings**

ID	Attendees	Organization	Meeting Date	Objective(s)	Meeting Type
1	Nicole Elliot Peg Stevenson Heather Littleton Cody Reneau	SF Office of Cannabis, SF Controller's Office	9/27/2017	<ul style="list-style-type: none"> <li>Review project request</li> </ul>	Lead Dept Check-In
2	Nicole Elliott Heather Littleton Cody Reneau	SF Office of Cannabis, SF Controller's Office	11/16/2017	<ul style="list-style-type: none"> <li>Equity report finalization</li> </ul>	Lead Dept Check-In
3	Nicole Elliott Heather Littleton Cody Reneau	SF Office of Cannabis, SF Controller's Office	01/18/2018	<ul style="list-style-type: none"> <li>Brainstorming data tracking</li> </ul>	Lead Dept Check-In
4	Nicole Elliott Eugene Hillsman Ray Law Heather Littleton Cody Reneau	SF Office of Cannabis, SF Controller's Office	01/25/2018	<ul style="list-style-type: none"> <li>Data identification methodology</li> </ul>	Lead Dept Check-In
5	Ted Egan Heather Littleton Cody Reneau Jeff Pomrenke	SF Controller's Office	03/07/2018	<ul style="list-style-type: none"> <li>Adult-use cannabis legislation implications on economy</li> <li>Available tax data and information</li> </ul>	Data Collection
6	Sari Ladin-Sienne Cat Packer Victoria Rodriguez Heather Littleton Cody Reneau Jeff Pomrenke	City of Los Angeles, SF Controller's Office	03/20/2018	<ul style="list-style-type: none"> <li>Los Angeles cannabis social equity program</li> <li>San Francisco cannabis equity program</li> </ul>	Peer City Interview
7	Amabel Akwa-Asare Ryan young Lowell Rice Katherine Daniels Heather Littleton Jeff Pomrenke Cody Reneau	SF Office of Economic Workforce Development, SF Controller's Office	04/05/2018	<ul style="list-style-type: none"> <li>First Source Hiring Program and the cannabis legislation</li> </ul>	Data Collection
8	Cassandra Costello Elisabeth Wieselthaler-Toelly Brett Allor Nicole Elliott Eugene Hillsman Ray Law Heather Littleton Cody Reneau Jeff Pomrenke	San Francisco Travel Association, SF Office of Cannabis, SF Controller's Office	04/07/2018	<ul style="list-style-type: none"> <li>Cannabis tourism data and methods of collection</li> </ul>	Data Collection
9	Greg Minor Heather Littleton Cody Reneau	Oakland City Administrator's Office, SF Controller's Office	04/17/2018	<ul style="list-style-type: none"> <li>Oakland cannabis equity program</li> </ul>	Peer City Interview

**Figure B.1 Controller's Office Meetings**

ID	Attendees	Organization	Meeting Date	Objective(s)	Meeting Type
	Jeff Pomrenke			<ul style="list-style-type: none"> <li>San Francisco cannabis equity program</li> </ul>	
10	Nicole Elliott Eugene Hillsman Heather Littleton Jeff Pomrenke Cody Reneau	SF Office of Cannabis, SF Controller's Office	05/10/2018	<ul style="list-style-type: none"> <li>Project status update</li> <li>Permitting data review</li> </ul>	Lead Dept Check-In
11	Joe Devlin Heather Littleton Cody Reneau Jeff Pomrenke	Sacramento Cannabis Policy and Enforcement, SF Controller's Office	05/15/2018	<ul style="list-style-type: none"> <li>Sacramento cannabis program</li> <li>San Francisco cannabis program</li> </ul>	Peer City Interview
12	Elizabeth Greene Heather Littleton Cody Reneau Jeff Pomrenke	City of Berkeley, SF Controller's Office	05/25/2018	<ul style="list-style-type: none"> <li>Berkeley cannabis program</li> <li>San Francisco cannabis program</li> </ul>	Peer City Interview
13	Deputy Chief Michael Redmond Heather Littleton Cody Reneau Jeff Pomrenke	SF Police Dept., SF Controller's Office	05/30/2018	<ul style="list-style-type: none"> <li>Adult-use cannabis data collection from SFPD</li> </ul>	Data Collection
14	Dan Sider Aaron Starr Heather Littleton Cody Reneau Jeff Pomrenke	SF Planning, SF Controller's Office	06/04/2018	<ul style="list-style-type: none"> <li>Article 33 planning and location restrictions</li> <li>Current cannabis business planning and location restrictions</li> <li>Planning and location restrictions on proxy industries</li> </ul>	Interview
15	Jeannie Balido Tomas Aragon Christine Siador Aragon Mohanned Malhi Eugene Hillsman Heather Littleton Jeff Pomrenke Cody Reneau	SF Dept. of Public Health, SF Office of Cannabis, SF Controller's Office	06/06/2018	<ul style="list-style-type: none"> <li>DPH input on key health and social services measures</li> <li>Information on type of available DPH data</li> </ul>	Interview
16	Deputy Chief Michael Redmond Captain Joe McFadden Josh Rafael Eugene Hillsman Heather Littleton Cody Reneau Jeff Pomrenke	SF Police Dept, SF Office of Cannabis, SF Controller's Office	06/07/2018	<ul style="list-style-type: none"> <li>Understanding SFPD crime data and collection methodology</li> </ul>	Data Collection
17	Nicole Elliott Eugene Hillsman Heather Littleton Jeff Pomrenke	SF Office of Cannabis, SF Controller's Office	07/20/2018	<ul style="list-style-type: none"> <li>Permitting data questions</li> </ul>	Lead Dept Check-In

**Figure B.1 Controller's Office Meetings**

ID	Attendees	Organization	Meeting Date	Objective(s)	Meeting Type
	Cody Reneau				
18	Deputy Chief Michael Connolly Josh Raphael Jason Cunningham Eugene Hillsman Heather Littleton Cody Reneau Jeff Pomrenke	SF Police Dept, SF Office of Cannabis, SF Controller's Office	07/31/2018	<ul style="list-style-type: none"> <li>Controller's Office request for SFPD data</li> </ul>	Data Collection
19	Wane Enanoria Jeannie Balido Eugene Hillsman Heather Littleton Cody Reneau Jeff Pomrenke	SF Dept of Public Health, SF Office of Cannabis, SF Controller's Office	08/06/2018	<ul style="list-style-type: none"> <li>Data available in ARCHES system</li> </ul>	Data Collection
20	Max Gara Heather Littleton Cody Reneau Jeff Pomrenke	SF Dept of Public Health, SF Controller's Office	09/24/2018	<ul style="list-style-type: none"> <li>Understanding Health Impact Assessments</li> </ul>	Interview
21	Nicole Elliott Eugene Hillsman Heather Littleton Jeff Pomrenke Cody Reneau	SF Office of Cannabis, SF Controller's Office	09/25/2018	<ul style="list-style-type: none"> <li>Report timeline</li> <li>Permitting dashboards</li> </ul>	Lead Dept Check-In
22	Andre Jones Eugene Hillsman Heather Littleton Cody Reneau Jeff Pomrenke	California Bureau of Cannabis Control, SF Office of Cannabis, SF Controller's Office	10/01/2018	<ul style="list-style-type: none"> <li>CA-BCC cannabis data tracking and cannabis programs</li> </ul>	Interview
23	Lt. Christine Jacobs Ofc. Vu Williams Heather Littleton Jeff Pomrenke	California Highway Patrol, SF Controller's Office	10/03/2018	<ul style="list-style-type: none"> <li>DUI data collection and CHP reporting on cannabis</li> <li>San Francisco cannabis program</li> </ul>	Data Collection
24	Phillip Coffin Eugene Hillsman Heather Littleton Jeff Pomrenke Cody Reneau	SF Dept of Public Health, SF Office of Cannabis, SF Controller's Office	10/09/2018	<ul style="list-style-type: none"> <li>Overview of CON report and structure</li> <li>Availability of data from DPH</li> </ul>	Interview
25	Nicole Elliott Eugene Hillsman Nicholas Mills Adam Nguyen HuiRan Shao Heather Littleton Cody Reneau	SF Office of Cannabis, SF Digital Services, SF Controller's Office	10/17/2018	<ul style="list-style-type: none"> <li>Permitting dashboards</li> <li>Data tracking prioritization</li> </ul>	Lead Dept Check-In
26	Maria McKee Cristine DeBerry Jeff Pomrenke	SF District Attorney's Office, SF Controller's Office	11/07/2018	<ul style="list-style-type: none"> <li>Criminal record expungements for</li> </ul>	Interview

**Figure B.1 Controller's Office Meetings**

ID	Attendees	Organization	Meeting Date	Objective(s)	Meeting Type
	Cody Reneau			cannabis-related offenses	
27	Frances Yokata Ann Donlan Jeff Pomrenke	Superior Court of California - San Francisco, SF Controller's Office	11/30/2018	<ul style="list-style-type: none"> <li>Obtaining search warrant data</li> </ul>	Data Collection
28	Jason Cunningham Josh Raphael Andrew Bley Heather Littleton Cody Reneau Jeff Pomrenke	SF Police Dept, SF Controller's Office	12/06/2018	<ul style="list-style-type: none"> <li>Data request</li> </ul>	Data Collection
29	Tracey Packer Patricia Erwin Hanna Hjord Ana Validzic Julie Wong Kitty Thornton Jacque McCright Michaela Varisto Eugene Hillsman Heather Littleton Cody Reneau Jeff Pomrenke	SF Dept of Public Health, SF Office of Cannabis, SF Controller's Office	12/12/2018	<ul style="list-style-type: none"> <li>DPH strategy on public education</li> </ul>	Interview
30	Nicole Elliott Eugene Hillsman HuiRan Shao Heather Littleton Jeff Pomrenke Cody Reneau	SF Office of Cannabis, SF Digital Services, SF Controller's Office	12/13/2018	<ul style="list-style-type: none"> <li>Permitting dashboards</li> <li>Report chapters</li> </ul>	Lead Dept Check-In
31	Netia Ingram Molly Duplechian Eric Escudero Christine Wyckoff Heather Littleton Jeff Pomrenke Cody Reneau	City of Denver, Excise and Licenses, SF Controller's Office	12/13/2018	<ul style="list-style-type: none"> <li>Denver adult-use cannabis program</li> <li>San Francisco cannabis program</li> </ul>	Peer City Interview
32	Nicole Elliott Eugene Hillsman Heather Littleton Jeff Pomrenke Cody Reneau	SF Office of Cannabis, SF Controller's Office	01/30/2019	<ul style="list-style-type: none"> <li>Dashboard status update</li> <li>Sponsor input on data tracking</li> </ul>	Lead Dept Check-In
33	Medical Cannabis Operator Heather Littleton Cody Reneau Jeff Pomrenke	Medical Cannabis Operator, SF Controller's Office	02/07/2019	<ul style="list-style-type: none"> <li>Cannabis operator interview session, medical cannabis dispensary</li> </ul>	Interview
34	Supply-side Cannabis Operator Heather Littleton Cody Reneau	Supply-side Cannabis Operator, SF Controller's Office	02/19/2019	<ul style="list-style-type: none"> <li>Cannabis operator interview session, supply chain</li> </ul>	Interview

**Figure B.1 Controller's Office Meetings**

ID	Attendees	Organization	Meeting Date	Objective(s)	Meeting Type
	Jeff Pomrenke				
35	Eugene Hillsman HuiRan Shao Heather Littleton Jeff Pomrenke Cody Reneau	SF Office of Cannabis, SF Digital Services, SF Controller's Office	02/27/2019	<ul style="list-style-type: none"> <li>Retail and consumer dashboards</li> <li>Data mapping questions</li> </ul>	Lead Dept Check-In
36	Equity Applicant Heather Littleton Cody Reneau Jeff Pomrenke	Cannabis Equity Applicant, SF Controller's Office	03/21/2019	<ul style="list-style-type: none"> <li>Cannabis operator interview session, equity applicant</li> </ul>	Interview
37	Eugene Hillsman HuiRan Shao Rick Johnson Jeff Pomrenke Cody Reneau	SF Office of Cannabis, SF Digital Services, SF Controller's Office	03/27/2019	<ul style="list-style-type: none"> <li>Equity program data</li> </ul>	Lead Dept Check-In
38	Equity Applicant Heather Littleton Cody Reneau Jeff Pomrenke	Cannabis Equity Applicant, SF Controller's Office	03/29/2019	<ul style="list-style-type: none"> <li>Cannabis operator interview session, equity applicant</li> </ul>	Interview
39	Christopher Colwell Heather Littleton Jeff Pomrenke Cody Reneau	Dept of Public Health, SF Controller's Office	04/29/2019	<ul style="list-style-type: none"> <li>ZSFG and UCSF experience with cannabis legalization</li> <li>Understanding red flags and potential data CON should consider for report</li> </ul>	Interview
40	Marisa Rodriguez Eugene Hillsman HuRan Shao Rick Johnson Jeff Pomrenke Heather Littleton	SF Office of Cannabis, SF Digital Services, SF Controller's Office	05/01/2019	<ul style="list-style-type: none"> <li>Internal dashboards</li> <li>Cannabis operators interviews</li> </ul>	Lead Dept Check-In
41	Ted Egan Heather Littleton Cody Reneau Jeff Pomrenke	SF Controller's Office	05/06/2019	<ul style="list-style-type: none"> <li>Economic chapter review</li> </ul>	Interview
42	Marisa Rodriguez Eugene Hillsman HuiRan Shao Rick Johnson Jeff Pomrenke Cody Reneau Heather Littleton	SF Office of Cannabis, SF Digital Services, SF Controller's Office	05/29/2019	<ul style="list-style-type: none"> <li>Internal dashboards</li> <li>Cannabis operators interviews</li> </ul>	Lead Dept Check-In
43	Equity Incubator Heather Littleton Cody Reneau	Cannabis Equity Incubator SF Controller's Office	06/05/2019	<ul style="list-style-type: none"> <li>Cannabis operator interview session, equity incubator</li> </ul>	Interview
44	Marisa Rodriguez Eugene Hillsman HuiRan Shao	SF Office of Cannabis, SF Digital Services, SF Controller's Office	07/31/2019	<ul style="list-style-type: none"> <li>Equity applicant processing</li> </ul>	Lead Dept Check-In

**Figure B.1 Controller's Office Meetings**

ID	Attendees	Organization	Meeting Date	Objective(s)	Meeting Type
45	Rick Johnson Cody Reneau Heather Littleton	SF Office of Cannabis, SF Controller's Office	08/07/2019	<ul style="list-style-type: none"> <li>Controller's Office report review</li> </ul>	Lead Dept Check-In
	Marisa Rodriguez Eugene Hillsman Ray Law			<ul style="list-style-type: none"> <li>Equity applicant mapping</li> <li>Controller's Office report review</li> </ul>	
	Jeremy Schwartz Alexandra Sandoval Emlyn Bottomley Heather Littleton Cody Reneau				
46	Eugene Hillsman Jeremy Schwartz Heather Littleton Cody Reneau	SF Office of Cannabis, SF Controller's Office	08/28/2019	<ul style="list-style-type: none"> <li>Controller's Office report review</li> </ul>	Lead Dept Check-In
	Marissa Rodriguez Eugene Hillsman				
47	Rick Johnson HuiRan Shao Heather Littleton Cody Reneau	SF Office of Cannabis, SF Digital Services, SF Controller's Office	09/25/2019	<ul style="list-style-type: none"> <li>Controller's Office report review</li> <li>Equity Program</li> </ul>	Lead Dept Check-In



## APPENDIX C: CALIFORNIA RETAIL LICENSES BY CITY

The following table details the number of retail cannabis licenses for several California cities by multiple factors.

**Figure C.1 Full Population and Land Area Table**

City	Storefront Retail Licenses	Delivery- Only Retail Licenses	City Population (2017)	Storefront per 100,000 population	Any Retail per 100,000 Population	Land Area (Sq. Mi.)	Storefront per Sq. Mi.	Any Retail per Sq. Mi.
Sacramento	27	54	493,025	5.5	16.4	98	0.3	0.8
Long Beach	24	0	480,173	5.0	5.0	50	0.5	0.5
Oakland	15	142	426,074	3.5	36.8	56	0.3	2.8
San Francisco	30	28	874,228	3.4	6.6	47	0.6	1.2
Los Angeles	79	0	4,041,707	2.0	2.0	469	0.2	0.2
San Jose	16	1	1,046,079	1.5	1.6	177	0.1	0.1
San Diego	17	0	1,406,318	1.2	1.2	325	0.1	0.1

Sources: Number of retail operator licenses – California Bureau of Cannabis Control; Population – League of California Cities < <https://www.cacities.org/Resources-Documents/About-Us/Careers/2017-City-Population-Rank.aspx>>; Land Area – U.S. Census American FactFinder < <https://factfinder.census.gov> >

## APPENDIX D: CITYWIDE ADULT-USE CANNABIS REGULATION AND ENFORCEMENT EXPENDITURES

The Controller's Office quantified the city's cost to regulate and enforce adult-use cannabis in calendar year 2018 by collecting full-time equivalent (FTE) hours worked information from 12 city departments that are assisting in the regulation and enforcement of adult-use cannabis. The Controller's office interviewed each department to identify what Department of Human Resources (DHR) job code classification and how many FTEs were involved in the implementation of adult-use cannabis regulation. The Controller's Office calculated the FTE count by the full salary and benefits associated with each job code. Figure D.1 includes the FTE count and total salary cost for each department.

**Figure D.1 Citywide FTE Cost by Department**

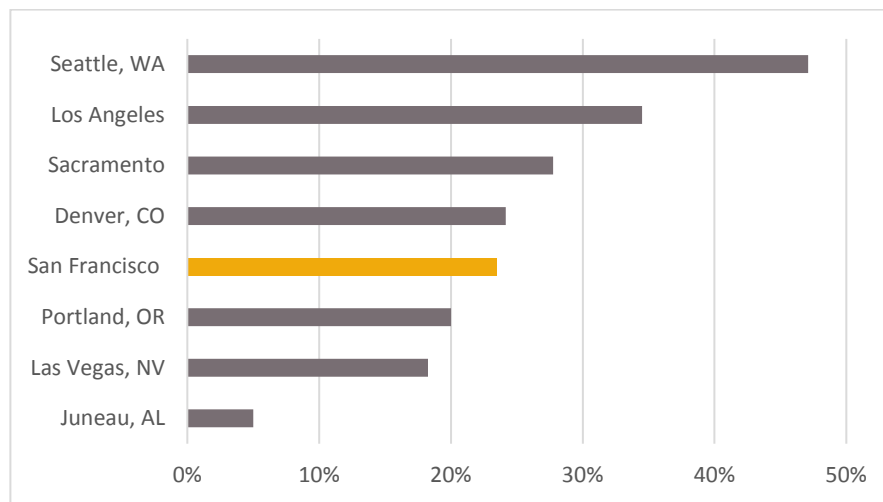
SF Department	FTE Count	Total Salary Amount
Digital Services	3.80	\$632,782
Department of Public Health	3.14	\$492,548
Office of Cannabis	3.00	\$465,761
Planning	1.45	\$216,008
Fire Department	1.00	\$161,319
Controller's Office	0.52	\$72,024
Department of Building Inspection	0.29	\$44,298
Treasurer and Tax Collector	0.1	\$35,435
Police Department	0.1	\$15,621
Office of Economic Workforce and Development	0.1	\$13,217
Mayor's Office on Disability	0.04	\$5,731
Environment	(No response)	(No response)
<b>TOTAL</b>	<b>13.54</b>	<b>\$2,084,740</b>

## APPENDIX E: CANNABIS TAX RATES

California cannabis operators pay state excise tax and sales tax to the California Department of Tax and Fee Administration (CDTFA).<sup>108</sup> The excise tax is set at 15% and paid by consumers to retailers for all cannabis and cannabis product purchases including medicinal cannabis. Sales tax in San Francisco is 8.5% of every retail transaction. The legalization of adult-use cannabis in San Francisco did not levy any additional cannabis-specific taxes.

Compared to other cities, San Francisco has a relatively moderate overall tax rate on adult-use cannabis sales as shown in in Figures D.1 and D.2.

**Figure E.1 Cannabis Taxes Comparison by City**



Seattle, Washington has the highest overall tax rate on cannabis with a 10.1% general sales tax combined with a state excise tax of 37%. Juneau, Alaska has one of the lowest overall tax rates on cannabis; there is no state sales tax, only a local sales tax at 5%. However, there is a \$50 per ounce charge on cannabis growers which could eventually be passed down to the purchasers as a price increase.<sup>109</sup>

<sup>108</sup> "Tax Guide for Cannabis Businesses" CDTFA <https://www.cdtfa.ca.gov/industry/cannabis.htm#Retailers>

<sup>109</sup> "Marijuana Tax" FAQ Alaska Dept of Revenue <http://tax.alaska.gov/programs/programs/help/faq/faq.aspx?60000>

**Figure E.2 Taxes on Cannabis**

Adult-use cannabis taxes vary by US city.

	Seattle, WA <sup>110</sup>	Los Angeles <sup>111</sup>	Sacramento <sup>112</sup>	Denver, CO <sup>113</sup>	San Francisco <sup>114</sup>	Portland, OR <sup>115</sup>	Las Vegas, NV <sup>116</sup>	Juneau, AL
<b>Sales Tax</b>	10.1%	9.5%	8.75%	3.65%	8.5%	0%	8.25%	5%
<b>Additional cannabis sales tax</b>				5.5%		3%		
<b>Cannabis- specific tax on gross receipts</b>		10%	4%					
<b>State Cannabis Tax</b>	37%	15%	15%	15%	15% <sup>117</sup>	17%	10%	
<b>Total Percentage</b>	47.1%	34.5%	27.75%	24.15%	23.5%	20%	18.25%	5%

<sup>110</sup> "Taxes due on Marijuana" Dept of Revenue Washington State. <https://dor.wa.gov/find-taxes-rates/taxes-due-marijuana>

<sup>111</sup> "Cannabis Tax Rate Table" Los Angeles Office of Finance. <https://finance.lacity.org/files/cannabis-tax-rate-table.png>

<sup>112</sup> "Cannabis Business Operation Tax" City of Sacramento. <https://www.cityofsacramento.org/Finance/Revenue/Business-Operation-Tax/Cannabis-Business-Tax>

<sup>113</sup> "Annual Report 2018" Denver, Colorado.

[https://www.denvergov.org/content/dam/denvergov/Portals/782/documents/Annual\\_Report\\_2018.pdf](https://www.denvergov.org/content/dam/denvergov/Portals/782/documents/Annual_Report_2018.pdf)

<sup>114</sup> "Tax Guide for Cannabis Businesses." CDTFA. <https://www.cdtfa.ca.gov/industry/cannabis.htm#Retailers>

<sup>115</sup> "Portland Marijuana Tax" Revenue Division, City of Portland, Oregon. <https://www.portlandoregon.gov/revenue/article/620894>

<sup>116</sup> <http://marijuana.nv.gov/Businesses/Taxes/>

<sup>117</sup> Effective January 1, 2018, a 15% excise tax is imposed upon retail purchasers of all cannabis and cannabis products including medicinal cannabis in California. The tax is administered by the California Department of Tax and Fee Administration.

## APPENDIX F: SAN FRANCISCO MARIJUANA PRICING

The following table shows the average prices for cannabis in San Francisco between 2017 and 2019 provided by [www.marijuanarates.com](http://www.marijuanarates.com), an industry trade organization. A few months of data are missing due to the organization's data errors.

<b>Average prices for Cannabis in San Francisco based by weight (Jan 2017 – May 2019).</b>					
Date	Gram	Eighth	Quarter	Half	Ounce
Jan - 17	\$10.70	N/A	N/A	N/A	N/A
Feb - 17	N/A	N/A	N/A	N/A	N/A
Mar - 17	N/A	N/A	N/A	N/A	N/A
April - 17	\$14.00	\$40.46	\$79.27	\$147.38	\$245.89
May - 17	\$15.40	\$43.47	\$82.71	\$137.08	\$255.80
Jun - 17	N/A	N/A	N/A	N/A	N/A
Jul - 17	\$14.94	\$43.00	\$80.42	\$142.54	\$268.07
Aug - 17	\$15.38	\$43.85	\$82.84	\$156.56	\$277.53
Sept - 17	\$15.16	\$43.43	\$81.63	\$149.55	\$272.80
Oct - 17	\$18.72	\$43.82	\$83.22	\$152.95	\$279.59
Nov - 17	\$19.17	\$44.67	\$84.05	\$154.50	\$290.43
Dec - 17	\$19.17	\$44.88	\$84.16	\$154.36	\$281.15
Jan - 18	\$14.11	\$43.89	\$80.53	\$155.45	\$294.36
Feb - 18	\$17.00	\$47.14	\$84.42	\$156.85	\$262.14
Mar - 18	\$17.71	\$47.14	\$84.42	\$161.00	\$304.85
Apr - 18	\$17.85	\$47.14	\$84.42	\$163.71	\$315.71
May - 18	\$17.00	\$47.14	\$84.42	\$161.33	\$305.20
Jun - 18	\$17.71	\$45.85	\$84.14	\$165.14	\$304.14
Jul - 18	\$16.85	\$45.00	\$84.42	\$159.71	\$291.28
Aug - 18	\$14.96	\$44.03	\$76.60	\$144.00	\$272.04
Sept - 18	\$16.70	\$46.81	\$83.22	\$165.75	\$309.67
Oct - 18	\$18	\$45.38	\$82.67	\$163.29	\$301.00
Nov - 18	\$16.91	\$44.95	\$83.00	\$164.29	\$301.50
Dec - 18	N/A	N/A	N/A	N/A	N/A
Jan - 19	N/A	N/A	N/A	N/A	N/A
Feb - 19	\$17.43	\$44.33	\$82.00	\$161.89	\$325.40
Mar - 19	\$17.76	\$43.67	\$78.36	\$153.30	\$316.00
Apr - 19	\$17.55	\$44.55	\$83.00	\$164.29	\$272.00
May - 19	\$19.87	\$45.50	\$86.63	\$155.90	\$310.76
<b>Average - ALL</b>	\$17.14	\$45.06	\$82.79	\$157.44	\$293.12
Methodology: Marijuanarate.com surveyed dispensaries in San Francisco to get a combined average cost for medical and recreational flower; it averaged the combined cost of medical and recreational flower at each dispensary, and then averaged the cost of each weight of flower across all dispensaries to get an overall average for the area. Both medical and recreational and all marijuana types (Sativa, Indica, Hybrid) are combined in these averages.					

## APPENDIX G: SFPD DATA ANALYSIS METHODOLOGY

The Controller's Office worked with the San Francisco Police Department (SFPD) through a memorandum of understanding to collect and store police incident summary data from the SFPD Crime Data Warehouse to understand any changes in crime trends and general impacts on public safety before and after the legalization of adult-use cannabis (January 2018) in San Francisco. The data collected was between 2013 to 2018.

There are two categories of police incident information obtained for this report: cannabis incidents and SFPD incidents within 600 feet of a known cannabis operator. Cannabis incidents include any incident report that includes cannabis-related crimes or incodes. The type of crime in an incident report is called the incode type, and the following incode types were used for this analysis of cannabis-related crimes:

- Marijuana offense (16010)
- Marijuana – possession for sale (16030)
- Marijuana – sales (16040)
- Marijuana – transporting (16060)
- Marijuana – cultivating/planting (16020)
- Marijuana – furnishing (16050)
- Marijuana – encouraging minor to use (16070)

The marijuana offense (16010) incode type is typically used by the SFPD when an officer is responding to a complaint of a non-specific marijuana offense. The SFPD may include additional incident incodes to describe the report such as marijuana sales or transporting to indicate the specific crime.

The second category of crime in this report is SFPD incidents within 600-feet of a known cannabis operators. This dataset was extracted by the SFPD's Business Intelligence Unit who developed a 600-foot radius search for all possible crime types around known legal cannabis retail operators' addresses. A 600-foot radius was used because it aligns with zoning requirements that prevent cannabis retailers from locating within 600 feet of a school or another cannabis dispensary. The SFPD mapped all crime within the 600-foot radiuses to federal UCR reporting categories of Part 1 property or violent crimes. The Controller's Office used this mapping to determine the amount of property and violent crime near cannabis locations.

The Controller's Office also obtained police data for all non-cannabis crime types through the [City's DataSF Open Data](#) online resource. All SFPD information obtained for this report through Open Data originated from the SFPD Crime Data Warehouse. The SFPD adds a disclaimer stating that they, "do not guarantee the accuracy, completeness, timeliness, or correct sequencing of the information as the data is subject to change as modifications and updates are completed. This publicly available data was used in the *San Francisco Cannabis Crimes* section of Chapter 5, Public Safety and illustrated in Figure 5.2 Cannabis-Related Crime Compared to All Crime by Police District. The following Open Data datasets were used in the report:

- Police Department Incident Reports: Historical 2003 to May 2018
- Police Department Incident Reports: 2018 to Present

The Controller's Office also leveraged SFPD citywide crime data available from the [Controller's Office Performance Scorecard website](#). This data includes specific property and violent crime types reported from the SFPD to the federal Uniform Crime Reporting (UCR) program and was analyzed to understand property and violent crime trends through the entire city and to compare those data and trends with crimes within 600 feet of cannabis operators.

The Controller's Office analyzed the 2017 to 2018 percent change in UCR crime types by calculating the monthly average property or violent crime count for a given year and comparing that to the monthly average for the following year. When comparing the percent change within 2018, the Controller's Office analyzed the percent change between the monthly average of property or violent crime counts for the first six months compared to the last six months of 2018.

## Data Limitations

Infractions (e.g., most citations), misdemeanors, and felonies are the three types of crime categories or levels used in SFPD incident reports. Only misdemeanors and felonies are included in this review as citation data was not readily available from the SFPD. At the time of the development of this report, historical citation data was only available on paper records and would have required a manual review by incode. The SFPD's current electronic database for citations, eCitations, went partially online in 2018 without previous years' data.

Warrants for cannabis-related crimes were also not included. Warrants are either active, meaning law enforcement is currently seeking a person for arrest, or the warrant is closed, and the active investigation is over. Active warrants were not available given the need to keep this information confidential. Closed warrants are obtainable either through the Criminal Records Division at the Superior Court of California or from the acting law enforcement agency who requested the warrant. The Superior Court of California retains warrant data in paper format with limited searchable methods for research. The Controller's Office also reached out to the US Department of Justice, Drug Enforcement Administration, and the Federal Bureau of Investigations; these agencies denied the Controller's Office Freedom of Information Act request or never responded.

The SFPD is unable to release individual or identifiable juvenile data due to California Assembly Bill 2952 without access granted by the courts. However, the SFPD provided summary annual statistics of juvenile arrest data.

The Controller's Office aimed to study crime data similar to often cited peer-reviewed articles regarding a decrease in crime or no increase at all following the opening of a legal cannabis business in the surrounding area. Due to limitations in the availability of accurate cannabis storefront retail opening dates, the Controller's Office studied crime trend changes pre and post adult-use cannabis legalization on January 5, 2018 as opposed to when the retail storefront began operating. The January 5, 2018 date nonetheless allows the Controller's Office to understand if there were any notable public safety impacts as a result of adult-use legalization. The majority of retail storefronts, MCDs, were existing prior to the adult-use legalization.

## APPENDIX H: SFUSD DRUG-RELATED SUSPENSIONS

Drug-related suspensions are coded into specific violations, as shown in the first column, below. There are no violations specific to cannabis use, but rather include all types of drugs and intoxicants. These violations have been categorized as shown in the second column; these categories are what are displayed in the graphs in Chapter 6, Public Health.

**Figure H.1 SFUSD Drug Related Suspension Table**

SFUSD Violation	Violation Category	2015	2016	2017	2018	2019	Grand Total
0 - Drug/Alcohol	Alcohol/Drug General	0	0	0	1	0	1
15 - Drug - Sale	Drug Sale	4	7	12	12	7	42
39 - Alcohol, Intoxicants - Offer, arrange, negotiate sale	Alcohol/Drug General	6	1	2	0	3	12
42 - Drug Paraphernalia - Offer, arrange, negotiate sale	Drug Paraphernalia	3	6	3	10	6	28
45 - Alcohol, Intoxicants - Use, sale, furnish	Alcohol/Drug General	5	26	44	39	12	126
96 - Drug - Possession	Drug Possession	1	0	0	1	0	2
99 - Drug - Possession	Drug Possession	17	12	44	56	35	164
<b>Grand Total</b>		<b>36</b>	<b>52</b>	<b>105</b>	<b>119</b>	<b>63</b>	<b>375</b>



## APPENDIX I: SAN FRANCISCO SENTINEL COMMUNITY SITE REPORT

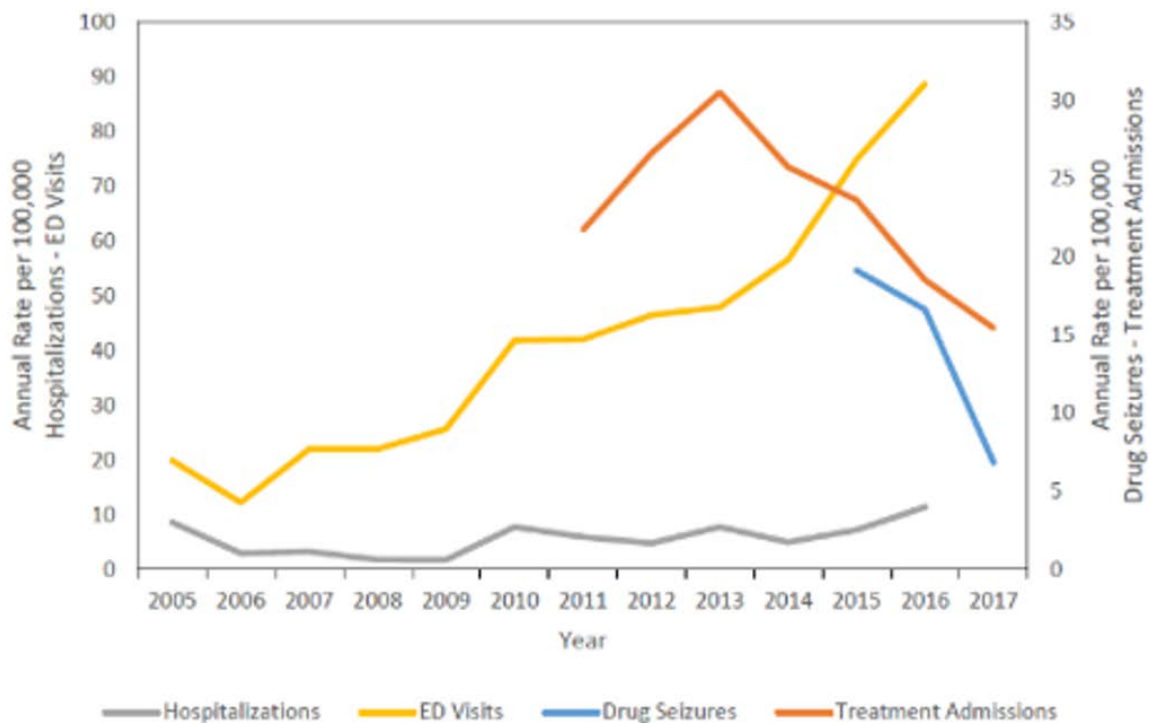
The National Drug Early Warning System (NDEWS) is designed to monitor drug use trends nationally. It is funded by the National Institute on Drug Abuse (NIDA) at the Center for Substance Abuse Research (CESAR) at the University of Maryland, College Park. San Francisco is one of twelve “sentinel community sites” that release an annual report on drug use trends and patterns. Reproduced below is the section of the San Francisco Sentinel Community Site Report related to cannabis use.

### Marijuana

#### Key Findings

Local indicators for Marijuana use and related morbidity and mortality in CCSF are mixed (Figure 9). SUD treatment admissions for marijuana have declined since 2013, and drug seizures have declined since at least 2015. However, emergency department visits involving marijuana have increased steadily since 2006.

Figure 9: San Francisco Cannabis Indicators, 2005 – 2017



SOURCES: See the Sources section for details. Emergency department visits and hospitalization include primary or nonprimary ICD 9 codes: E854.1 (poisoning), 969.6 (poisoning) and ICD 10 code: T40.7 (poisoning); primary only ICD 9 codes: 304.3 (dependence), 305.2 (abuse) and ICD 10 codes: F12 (dependence/abuse/use).

#### Additional Findings

In 2016, California voters passed Proposition 64, which legalized the sale and distribution of cannabis products beginning in 2018. Tracking cannabis-related health and safety indicators since legalization is a priority for CCSF.

NDEWS, (2018). *San Francisco SCS Drug Use Patterns and Trends*